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Editorial Comment

Centenary of Queen's University

On the 16th of last month, Queen's University observed its hundredth birthday. Our Association was represented at the centenary celebrations by W. G. H. Jephcott, F.C.A., Chairman of the Committee on Education and Examinations and Immediate Past President of the Institute of Chartered Accountants of Ontario.

It was on the 16th October 1841 that Queen Victoria granted a charter for the establishment of Queen's College at Kingston. Classes started the following spring in a rented clapboard house on a half-acre lot, with a principal, two professors and ten students.

Born thus in humble circumstances, Queen's did not have an auspicious beginning and, being perpetually short of funds during the first decades, its continued existence was often in doubt. But the university was founded by Scottish Presbyterians to whom an education was one of life's prized possessions, and towards the acquirement of which many a lad of poor parents in Scotland was sent off to college carrying with him his winter's supply of oatmeal.* This practice persisted in the very early days of Queen's.

*In his autobiography, *Memory Hold-the-Door*, Lord Tweedsmuir referred to some of the hardships of the university-minded poor boy of his day.

Line of The university was fortunate in having from
Great Men the outset great leaders and brilliant teachers whose powers of imagination and wealth of inspiration stirred increasing numbers of students as the sessions passed. Such attributes were of infinitely greater worth than the material equipment of a seat of learning, and that fact helps to explain why the record growth of this university has been described by more than one familiar with her history as "the miracle of Queen's." To mention only a few in that list of leaders and distinguished graduates from the Faculty of Arts, there were Principal George Munro Grant, John Watson the philosopher, James Cappon—professor of English, Nathan Dupuis—professor of mathematics, Adam Shortt—professor of political science, Oscar D. Skelton—professor of economics and later Dominion under-secretary of state for external affairs, and W. T. MacClement—professor of biology and "Father" of the Summer School. It was our privilege to know all these, with the exception of Drs. Grant and Dupuis. They have "passed on," but among those who still serve must be mentioned W. E. McNeill—former professor of English, now Vice-Principal, and for twenty years treasurer of the university; and John Matheson—professor of mathematics and Dean of the Faculty of Arts.

Today Queen's has a staff of 360, a student registration in the last pre-war year of nearly 5,000, buildings and equipment valued at \$5,000,000 and an endowment fund of \$4,000,000.

Some of the readers of this tribute to one of Canada's outstanding educational institutions are graduates of Queen's and are in some measure familiar with her history. For others, D. D. Calvin's recent publication *Queen's University at Kingston* (\$2) will be found fascinating. A copy may be obtained from the University.

To Queen's we say: May your light not grow dim, and may the inspiration of your leaders and teachers find response to an even greater degree in the students of coming days.

Elsewhere in this issue is the report of our
American President on his visit to the 1941 annual
Institute of meeting in Detroit of the American Institute
Accountants of Accountants.

We count it a privilege and a great advantage to be present at the annual meetings of that In-

stitute. This was particularly true this year. The new situations arising in the ordinary practice of the accountant in the United States, and those industrial problems which are emerging from the numerous types of government defence contracts in that country, evidently stirred members of the profession to gather in unusual numbers for an exchange of views with their professional brethren. At the close of the session the thousand or more members in attendance from all parts of the United States must surely have felt they had received a large measure of enlightenment and inspiration for the strenuous days ahead.

Independence is the indispensable attribute of the public accountant and the foundation of professional accounting practice. The importance of keeping this in mind and of emphasizing it on all occasions was stressed by the President of the Institute, Mr. C. Oliver Wellington of New York, in his able address to the convention. Moreover, the public accountant, Mr. Wellington stated, must show by his actions that he is independent. Once his independence is impaired, or even suspected of being impaired, his usefulness as interpreter among conflicting interests is at an end. That is why the profession must discipline itself. It cannot afford to let individual members diminish public confidence in the group as a whole; neither can it afford to let any outside body assume disciplinary power over the profession.

We shall not attempt to give here even the highlights of the papers which featured three full days of the convention. The problems of the practising accountant in the United States are in many respects similar to those of the profession in Canada. Any of our readers desirous of studying the most recent American observations on audit programs, staff training methods, auditors' reports, cost problems in connection with price control, accounting treatment of unusual and extraordinary costs, government supply contracts on a cost-plus basis, and observations on the many other subjects of those sessions should place their order with the Institute, 13 East 41st Street, New York City, for a copy of these papers which we understand are being published and will shortly be available at a reasonable price.

*The Profession
and National
Defence*

The relations between our Dominion Association and the American Institute have always been pleasant. It was a neighbourly gesture of the Institute to have one of our distinguished members—George C.

McDonald of Montreal—give to the convention some facts about the impacts of the war on the profession in Canada. These were clearly set forth by Mr. McDonald and, with the kind permission of the Institute, his paper is published this month.

In his presidential address Mr. Wellington also emphasized the seriousness of the war in Europe and the threat to American life and democratic institutions if the "international gangsters" were not soon checked. "If fighting is necessary now, as seems probable," he said, "we should not hold back, or we may lose what will take many generations to regain." His suggestions on how the profession can help in a national emergency had a familiar ring inasmuch as our own executive and legislation committees have been devoting time to similar problems ever since Canada entered the war two years ago. "Each of us has a responsibility to awaken the people to the seriousness of the problem," Mr. Wellington said, "and to co-operate with government and industry toward bringing the present world situation to the only end which will be permanently satisfactory to freedom-loving people The accounting profession can help the government by suggesting the easiest, most convenient, and least expensive methods of taxation, the most effective control over expenditures, and the best safeguards against waste or loss."

What impressed us particularly at this and previous annual meetings of the American Institute was the large number of older and more mature members of the profession taking an active part in the sessions. Here were extremely busy men, high up in the profession, who could have found reasonable excuse for staying away. Nevertheless they have realized the importance of being present, not as on-lookers but as contributors, and by the presentation of papers and participation in discussions they continue to give real impetus to the progress of the profession in that country.

*Chartered
Accountant
Examinations*

A year has passed and again have come round the days when candidates are making a review of their notes and instruction courses in preparation for the week of examinations. The timetable for Intermediate and Final candidates was published in our October issue. Because of our close contact with examinations and examiners for the past twenty-five years or more, we shall make a few observations which we hope may prove helpful to the serious-minded student.*

It is only in comparatively recent years that the provincial Institutes in general have planned courses of instruction for the students in chartered accountants' offices. These provide for a series of graduated lessons throughout the student's five years of apprenticeship. Compared with the lot of the student of former days, the many benefits from this system of organized help can hardly be estimated. No longer does he have to scan the announcements of correspondence schools for courses that might be taken to advantage. One great benefit is the syllabus of study prepared by a body of experienced instructors and practising accountants who are fully acquainted with the needs of students. Coupled with this is the bibliography of authoritative references appearing throughout the courses as an aid to further study and research for the student of greater diligence and possessed of the inquiring mind. As a direct result of this order and arrangement, time is now saved to the student in his search for relevant study material. In these days of national emergency this is an important factor, for it can be expected that longer hours of service will have to be demanded from the greatly reduced staffs of chartered accountant firms, thus possibly depriving the student of some time otherwise spent in study.

Under such a system of instruction, requiring as it does the submission on scheduled dates of solutions to a variety of problems in each lecture or lesson and the return of these corrected by the instructor, it is reasonable to expect that the majority of candidates going up for examination should be successful in passing. But such has not been the case;

*The attention of students is drawn also to the article in our September 1940 issue, "Bad Habits in Examinations," written by one of the examiners.

the percentage of passes in the Final examination has been disappointingly low and has occasioned great concern to both the board of examiners and the councils of the several Institutes. What is the cause? Are the examinations too difficult or are candidates not fully prepared for the four or six-day period of serious testing?

*Insufficient
Preparation*

The uniform examinations of the provincial Institutes are set by practising members of the profession and come under the critical review of a board also made up of practising accountants of long experience in the setting and the marking of examinations and capable of judging what can reasonably be expected of candidates within the time allotted for answering a particular paper. There has been little, if any, complaint of late by candidates that examinations have been too difficult; but there has been the charge that the papers were too long. That charge is an old one and has been heard annually for years. It has no foundation in fact, but it does reveal the cause of a large percentage of failures at examinations, and on the students' own testimony bears evidence of the fact that candidates come insufficiently prepared for the *realities* of the examination room. Here is the admission that gives the clue to the chief cause of the failures today. How can the weakness be remedied?

We have referred to the courses of instruction provided by the Institutes for their students. This system of organized study can become for every student a great blessing. However, in this method of having everything "handed" to him, there is a weakness that can easily prove a pitfall to the unwary. The chartered accountant student of other days had to do most of the "digging" for himself in preparing for examination. Perseverance, the questioning mind, a discriminating judgment, and the ability to set down concisely the results of his studies in the accounting field were among the qualities developed to a marked degree in the student seeking a career in accountancy. For him the written examination was not the ordeal it is proving to be for students today. How candidates can learn to remedy a serious defect in their preparation for examinations is the chief purpose of our comments at this time.

*Remedying
a Defect*

There are three fundamental facts that candidates for examinations must keep in mind. The first is that the prescribed course of study must be faithfully completed and satisfactory grading attained. The second is that the mere fact that information exists in the student's notebook is no assurance that it is in his head also; application is needed to make it so. The third is of supreme importance and, according to L. C. Cropper, F.C.A., who for many years prepared candidates for the examinations of the English Institute of Chartered Accountants, is as contributory to success as the acquisition of the necessary knowledge, namely, ample practice in putting down *in writing* in clear and concise language the answers to examination questions from previous papers set. When reviewing his work for examination it is not uncommon for the student to run quickly through sets of questions and dispose of them with "I know all about that," or with hasty references to the textbook in cases of doubt. Perhaps nothing contributes more to a false feeling of preparedness and safety than this. As Mr. Cropper pointed out in a lecture made some thirty years ago, the one thing that stands out pre-eminent in the experience of examiners in accountancy is the small percentage of candidates who appear to be able to complete properly the work set within the limits of the time allowed. It is an established fact that a large number of candidates fail to do themselves justice in the examination room owing to their inability, through lack of practice, to decide what is required in a problem, marshal the facts in logical order, and convert the knowledge possessed clearly and concisely into words *on paper within a reasonable time*.

There is nothing revolutionary about all this; it is only the application of common sense. The rugby team may know how to play, but plenty of practice before the scheduled game is fundamental. The counsel in law may know all the important facts in his client's case, but the outcome of the trial will in large measure depend on whether or not he can present those facts clearly and effectively to the court. Students, then—our suggestion to you is that throughout the five years of preparation you become your own disciplinarians. With the writing of former test papers at frequent intervals under self-imposed examination conditions in your own study, you have in your hands the remedy for this defect that has worked to the disadvantage of not a few students.

IMPACTS OF THE WAR ON THE PROFESSION IN CANADA

By George C. McDonald, Chartered Accountant,
Montreal

Editor's Note:—On the invitation of the American Institute of Accountants, Mr. McDonald addressed the annual meeting of that Institute in Detroit, Michigan, on 18th September last. His address is published herein with the kind permission of the Institute. Mr. McDonald is well known to the profession in Canada and was President of The Dominion Association of Chartered Accountants during the year 1933-34.

MY subject is "Impacts of the war on the profession in Canada." With your permission, I would like to begin with a brief statement concerning Canada's war effort as a background for my paper. I promise to arrive promptly at my subject and to keep within my time limit.

The Background

In the last war, out of a population in 1914 of 7,879,000, Canada raised 500,000 men voluntarily and 125,000 by conscription for war service, or one in thirteen of the population. In 1918, it was supporting in France the Canadian Corps, a very strong unit. At the same time, it was supplying munitions and supplies for war of \$50,000,000 per month. At the beginning of the war, the net debt of Canada was \$336,000,000; at the 31st March 1919, it was \$1,575,000,000. In the interval, special war taxes were levied and have been in effect ever since. Incidentally, from their inception to 31st March 1939, these taxes have produced over \$800,000,000 in excess of the cost of the war, demobilization, soldier and general land settlement, soldiers' civil re-establishment and pensions. Thus by the time the new war started, the total cost of the old war had been paid off by the war taxes collected and a substantial surplus turned in to the Consolidated Fund.

Towards the end of 1917, it was considered necessary by the government to enforce conscription for military service. The men in France were glad to have the reinforcements, but when they got back to Canada they were rather shocked to find that there had been no other form of conscription of man power in either industry or finance and that many war fortunes had been made. To an extent this has been remedied in this war.

At the start of this war, Canada, like the other democracies, was not in a position to put a trained and equipped army in the field. The first steps taken were immediately to call for volunteers to provide two divisions for active service, and arrangements were made to mobilize the production of war supplies and equipment. To the veterans of the last war, it seemed poetic justice that the first steps taken by the government practically amounted to conscription of finance and industry. (I refer to the income and excess profits taxation, the national defence tax, the foreign exchange control board and the wartime prices and trade board.) It was decided, in so far as service outside of Canada was concerned, to rely on the voluntary system for recruits. Based on the military plans previously arranged between Britain and France, it did not seem necessary immediately for Canada to send proportionately as many men to Europe as in the last war. At the same time it was realized that the increased mechanization of war called for more men in factories in proportion to those in the field. In addition to help from the Canadian Army, Navy and Air Forces, what Britain was looking for from Canada was,—

1. A supply of munitions and equipment for war purposes on the scale of supply at the end of the last war, viz., 50 millions monthly and double that in the second year.
2. Recruits for the Air Force and Navy.
3. Technical assistance.

We were trying to cling to the voluntary system, both as regards our willingness to fight and our ability to work and produce, because we have been living in a capitalistic economy and the profit motive is still the driving force behind present-day economic activity. However, the events in Europe in April and May 1940 gave the world a shock, and in Canada it produced The National Resources Mobilization Act and similar Acts in Australia and New Zealand. The Canadian Act, the wording of which was practically a copy of Mr. Churchill's Emergency Powers (Defence) Act of 1940 gives the government complete power to conscript man power and property for industry and the defence of Canada. The extent of the government's power in this respect is not properly understood either inside or outside

Canada. Perhaps the reason is that the government has not yet been very aggressive in asserting its powers. It has called up certain age groups for military training and is retaining them for the defence of Canada for the duration of the war, and it has greatly increased already high taxation.

Under the voluntary system, Canada already has over 320,000 men in service in the Army, Navy and Air Force, of which over 100,000 are already in England. In addition to this, there are in the Reserve Army (formerly the Canadian Active Militia) 170,000 men. This makes a grand total of 490,000 men available for service, or one out of 23 of the population of Canada.

War Spending

Canada's war spending has increased steadily and momentarily. In the first five and a half months of the conflict, the Dominion spent approximately \$118,000,000 on her own preliminary war activities. In the 1940-41 fiscal year (1st April 1940 to 31st March 1941), direct expenditure for war was \$792,000,000. The amount spent in the first three months of 1941 was about five times as great as the amount spent in the first three months of 1940. The current rate of war spending on Canadian account is well over \$1,000,000,000 a year. It is expected that Canada's contribution in direct war expenditure for her own account in the current fiscal year (1st April 1941 to 31st March 1942) will be approximately \$1,450,000,000, or over \$125.00 per head of population—nearly twice as much as the amount spent in the past fiscal year. This is a direct, outright and unreserved payment by Canada to the cause of freedom.

In addition to this direct expenditure on her own war requirements, Canada provides Great Britain with Canadian dollars to finance the bulk of British war purchases from Canadian firms. By repatriating Canadian bonds held in Britain, Canada is today paying obligations which ordinarily would not fall due until future years. By accumulating sterling balances Canada, in effect, lends Great Britain money. Canada has to date supplied Britain with about \$750,000,000 in these ways—about three-quarters of Britain's trade deficit with Canada since the beginning of the war. The net amount which Canada expects to provide for this purpose in the present fiscal year, which ends

on 31st March 1942, amounts to between \$800,000,000 and \$900,000,000.

I should like to make it clear that whatever gold or United States dollars we get from Britain to help pay for the goods they get from us, Canada uses immediately to pay the United States for war purchases. Any gold coming from Britain does not reduce by one dollar the amount which must be raised from the Canadian public in taxes and loans.

From Canada's point of view, these facts cannot now be too strongly emphasized or too often repeated, because there has been some vicious propaganda which persists in many quarters to the effect that Canada is demanding cash on the barrel head for everything she supplies to the United Kingdom. Nothing could be more cruel or unfair than such statements.

Averting Inflation

All this expenditure means heavy taxation to the Canadian. It has been levied by the government and cheerfully accepted by the people. Profiteering is impossible because of our heavy excess profits tax, our income tax, and the defence tax of 5% to 7%, which applies upon the gross income of all citizens whose annual income exceeds \$660.00.

Canada's effort to finance the war without inflation is reflected by the following:

1. Public borrowing and subscriptions to war savings certificates to date aggregate \$1,300,000,000.

2. Complete control of industry and finance by various measures as the,—

- Income tax act

- Excess profits tax act

- National defence tax

- Wartime prices and trade board

- Foreign exchange control board

- Wartime wages policy under order-in-council P.C. 7440.

I quote as follows from a supplement to *The Labour Gazette* (Ottawa) of July 1941 dealing with Canada's wartime wages policy: "Taxes on corporation profits range from a minimum of 40 per cent on total profits to a maximum of between 80 per cent and 89 per cent of excess profits.

In 1939 such taxes amounted to about \$78,000,000. This year they are expected to yield \$385,000,000—considerably more than total dividends paid in any recent year. Then when these profits (that is, any profits remaining) are paid out as dividends, they are subject to further heavy taxation under the personal income tax. Security prices are supposed to reflect present and prospective profits. Toward the end of June 1941, common stock prices were nearly 33 per cent lower than during the first month of the war.

"All are agreed that none shall profit from the war. This policy is expressed in the government's efforts to control and tax profits, to control prices and rents. It must be rounded out by control of wages, for they constitute two-thirds of the national income."

The Profession and National Service

That is the background facing the profession in Canada today.

In Great Britain before hostilities commenced, the government announced that qualified accountants over thirty years of age would be reserved, although they may volunteer in the armed forces. Accountants are also registered as to professional history in a central registry of the Ministry of Labour. Selections are made from this registry whenever the government requires qualified men, either for particular work or to serve in the accounting branches of His Majesty's forces. There is no compulsion to accept such service, but many members have done so.

To illustrate the present situation in England, I quote the following extracts from recent addresses by the Presidents of two of the leading accounting societies:

*Institute of Chartered Accountants in
England and Wales, 7th May 1941:*

"On the question of National Service, there is one point I would stress, namely, is the best use being made of the services of qualified accountants? I cannot think the answer can be in the affirmative. While I appreciate the many difficulties of always putting the right man in the right place, it is surely a waste of man power for qualified men to be serving in the lower ranks of the Pay Corps or the Accountancy Branch of the Royal Air Force. In the very nature of things, they cannot have to deal with finan-

cial problems such as abound in the professional life, nor are they faced from day to day with the manifold problems which arise from taxation and war-time legislation. Conversations are now taking place with the responsible government departments which will, I hope, result in the removal of some of these anomalies."

The Society of Incorporated Accountants and Auditors, 22nd May 1941:

In his annual address to members, the president referred to the fact that, although accountancy was recognized as of national importance and was scheduled as a reserved occupation, large numbers of the members of the Society were serving with the armed forces of the Crown and many others were serving in administrative and executive positions in military and civil service. As a result, accountancy firms had been seriously depleted and it was becoming increasingly difficult to meet the normal demands of the profession. "But the difficulties under which the profession is functioning," said the president, "have been accentuated by the ever-increasing volume of work and burden of responsibility arising from war legislation and emergency orders—purchase tax, limitations of supplies, commodity and raw material controls and pools, concentration of production, war damage—these are only a few of the measures in which auditors' accounts and certificates are called for.

"The attempt to meet all these obligations has involved a growing strain on our members, and while we do not complain and gladly regard it as our contribution to the nation's war effort, we felt we were justified in looking for a measure of support by the authorities so that we could hope to retain the remaining qualified and experienced members of our staffs."

Growth of Profession

In order to get a proper appreciation of the growth of the profession in Canada, I would emphasize that at the end of the last Great War in 1918, the membership of The Dominion Association of Chartered Accountants was only 548. I would say that the profession had received a tremendous impetus from that war. This was due to the business boom in Canada arising from war production, along with the coming of the income and excess profits taxes.

In the interval since the last war, the profession has continued to develop proportionately to the growth of the production and the population of Canada, as well as the increasing complexity of business and the ever multiplying taxation and statistical problems. The population of Canada in 1939 had risen to 11,315,000. While in the interval the profession has been a training ground primarily for itself, it has been turning out an ever-growing number of members who become controllers and executives for industry and finance, and many government officials, particularly in taxation and finance departments.

In 1941, the membership has reached 2,314. The average increase during the last fifteen years has been about 100 per annum. It is interesting to note that the trend of the increase has been greater towards chartered accountants employed outside the profession. In 1935 the percentage of members of The Dominion Association of Chartered Accountants engaged in professional practice was 69, and those employed outside 31. In 1939, the percentage of those practising was 62.4, while those employed outside was 37.6. In 1941 the figures were—practising 54.2%, employed outside 38.7%, C.A.S.F. 7.1%.

The 7.1% represents the 179 members who have been enrolled in the C.A.S.F.—Army, Navy and Air Services. Quite a few of these had been through the last war and had maintained their connection with the militia in the meantime. As the formation of the Active Service Forces was in large measure based on the Canadian Active Militia, those who had maintained their connection were naturally the first to get into the new war. I think that Canada owes a special debt of gratitude to those citizens who stuck to the militia through many long years of pacifist criticism and discouragement and who were ready when the call came again.

Not a Reserved Occupation

In Canada at the outbreak of war, it was expected that accountancy would be a reserved occupation as in England, but no formal steps were taken. I understand that recruiting officers were told not to accept qualified men for enlistment in the ranks. Amongst the profession the impression got abroad that chartered accountants were going to be called upon to play quite an important part in their own

profession, as already in England they were being withheld from enlisting in order that they could be used to check up the cost of war orders.

Actually, the first impact of the war on the profession in Canada was expressed in a questionnaire which was issued by The Dominion Association of Chartered Accountants to its members in May 1939, for the purpose of compiling a national registry of the names and particulars of the members of the profession who would in time of war or other national emergency be prepared to offer themselves for appropriate work in their professional capacity, and if not already engaged in more important duties from the point of view of national defence, to accept such suitable work as might be offered. This questionnaire was filled in by a large majority of the active members and over one thousand filed with the government at Ottawa. This registration was used for the Foreign Exchange Control Board and the Air Force Pay Corps, and I understand that about a hundred chartered accountants responded to requests to join these organizations. There have, however, been large inroads made on the individual personnel of the profession for special posts.

Among the senior positions which members of the profession have been called upon to fill in special government service and war organizations were the following:

Members of—

Board of Referees—Excess Profits Tax Act
Labour Co-ordination Committee
War Contracts Depreciation Board
Wartime Requirements Board
Executive Committee, Department of Munitions and Supply
Supervisor, Foreign Exchange Control Board
Comptroller, Munitions and Supply Department
Secretary, War Contracts Depreciation Board
Director, Wartime Merchant Shipping Limited
Administrator, Wartime Prices and Trade Board
Executive Assistant to Minister of National Defence
Special Assistant to Deputy Minister of National Defence for Air
Assistant to Deputy Minister of Finance
Head of Statistical and Records Branch

I would also emphasize the fact that the majority of these members are as a rule quite senior members of the profession and therefore a much greater loss to their firms. While some of these are doing work of a strictly professional character, many are holding very important executive and advisory positions and dealing with matters outside the regular scope of the profession.

Increasing Complexity in Industry

While the war has in many instances doubled and trebled the activities of private enterprise, government activities have multiplied even more, and there has resulted a drain on the accounting profession from all sides.

1. Its own activities have increased.
2. The Active Service Forces have taken many members and assistants voluntarily and in certain age groups by conscription for home service.
3. The industry of the country is asking for more qualified men.
4. The government wants more men for—
 - The Department of National Revenue
 - The Foreign Exchange Control Board
 - The Department of Munitions and Supply
 - The Treasury Board
 - The Auditor-General's Department.
5. The British Purchasing Commission has taken some members and clerks.

While the loss of qualified men has been serious, the loss of juniors and intermediate assistants has naturally been greater, and in many instances, it has been disconcerting. It has been possible to make some replacements with older men, and in quite a few instances, women are being given an opportunity in the profession.

The following have all made more complications for business and therefore for accountants:

- New taxation—Excess profits, national defence tax,
federal succession duty
- Unemployment insurance
- Foreign exchange control
- Custodian of enemy property
- War savings certificates and war loan deductions
- Government contracts.

Some of the legislation is very complicated and requires far more time and attention for all concerned—the taxpayer, his auditor and the tax collector. For example, the excess profits tax and the calculation of average profits in the standard period, the capital employed, depreciation allowance, both ordinary and special, and inventory reserves. The business boom and the war activities have doubled and trebled the amount of accounting to be done by both our clients and the profession.

A major feature of our wartime practice has to do with presenting cases for our clients before two new judicial bodies which have been formed, namely, the War Contracts Depreciation Board and the Board of Referees under the Excess Profits Tax Act. As the problems that come before these bodies are so essentially accounting, our profession is very welcome in these courts.

Accountants are more and more being called upon to specialize as tax experts and, as you all know, that particular branch of our profession is a very great time consumer.

In addition to the qualified men on active service, there are probably between two and three times as many registered students in the different services. At the end of the last war, students who had been overseas were allowed one year off apprenticeship. I should think it very probable that similar consideration will be given to those serving in the present war.

Use of Accounting Firms

I quote the following recent reference in the editorial columns of *The Canadian Chartered Accountant* to the suggested employment by the government of a company's own auditors.

"We were interested in reading a reference last month in *The Accountant* (London) to a discussion on this very matter in the British House of Commons . . . The Minister of Supply was asked whether he was aware that inconvenience and dislocation of work had been caused by the visits of accountants from more than one department of the government to the same firm and whether steps would be taken to avoid this overlapping in future. The Minister replied that he was fully aware of the danger of overlap-

ping by the accountants of purchasing departments who were concerned with the costs of the same firms. On becoming aware of the situation he had caused steps to be taken to eliminate duplication of visits by accountants in future and had arranged that the department principally concerned with a firm's costs would investigate them for other departments of the government. Of possibly greatest importance was his next statement: 'I may add that it is hoped to diminish the necessity for visits by departmental accountants to investigate firms' costs by utilizing the services of the firms' own auditors. This measure, however, is at present in the experimental stage, but if it proves satisfactory, it will be extended. The use of the firms' own auditors will not, of course, affect the department's right to make their own investigation subsequently, should this be considered necessary, but it is hoped that the report of the firms' auditors will in the great majority of cases be sufficient without further check.'"

The experience in Canada has been that while the impact of the war has brought about a very big demand for chartered accountants, the demand has been rather for individuals than for the services of the accounting firms.

There have been a few cases where firms have been used, e.g.,

1. To act as controller for the custodian of enemy property.
2. To act in certain government contracts to certify to capital costs or costs of production.
3. To make enquiries for government departments, such as the wartime prices and trade board.
4. For a five-month period from the 1st of May 1940, twenty-one members of the Association were loaned by their firms to the Foreign Exchange Control Board to do special investigation work.

Even after two years of war, the situation of the relations between the government and the chartered accountant firms may be regarded as still in an experimental stage. Government departments have shown that on the whole they prefer to have their own investigators, but experience may prove in the long run that a better result can be obtained if the government can put more responsibility on

a firm's own auditors and take steps to prevent accounting firms from being depleted of their trained personnel for the benefit of government departments where their special skill and training is not so fully used.

I venture to suggest that it rests with the accounting firms themselves to prove by their conduct that in the realms of accuracy, economy and efficiency, their services can prove to be the most satisfactory, not only to their clients, but also to the authority that may be interested in the clients' affairs.

I am sure that raising the standards of the profession in such matters as were discussed before the Committee on Ethics of your Institute the other evening will go a very long way towards improving our position before the public.

There is also something to be said about the point of view of the client. The other day one of my colleagues was asked to keep his men out of a client's office because there were already five sets of government auditors preventing him from getting on with his work.

One difficulty of the government is the danger of being accused of using political patronage in the employment of firms.

The Profession and Tax Administration

Regarding the relations between the government and the profession, I quote from a speech of Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax, Ottawa, at the annual dinner of the Institute of Chartered Accountants of Ontario, 28th February 1941. Referring to the national defence tax, he said,

"Your profession will, in the course of your usual duties, be required to certify as to the accuracy of the accounts of public corporate employers in the discharge of this statutory trusteeship duty, the same as you do for all accounts. But the point is, it is another of the cumulative duties of a tax character arising in the course of your duties and functions. The cost of compliance is mounting!

"There is every reason to believe that such trust and confidence as exists in the United Kingdom is developing in Canada. Such a trust is not created by a declaration. It is acquired by a course of conduct over a long period of

time. It is not a thing given or taken. It is a thing that grows in the course of time. It is an understanding amounting to complete trust and reliance in the integrity, the honesty of purpose and ethical standards each of the other; further, that there prevails a steadfast purpose to adhere to such characteristics notwithstanding special pleas or inducements from any source to deviate therefrom.

"Our direct taxes are, comparatively, so very new, as also are some professional accountant associations, that it is perhaps too early to consider that we have attained to such perfection and mutual understanding as they have in England."

In Mr. Elliott's remarks there is a challenge to the profession which I think we should take up. I agree that it should be the aim of the profession to establish its position in the community so that the opinion of its members, once given, would not need any revision by taxing authorities or others. In order to bring about that result, it will be necessary for the government, in drafting its legislation, to see that the regulations regarding the preparation of statements by the taxpayers, as well as the precise definition of the tax liability in the various revenue acts, make it possible for the company's auditor to know that the tax obligations of the company are completely and properly stated.

To the company's auditor, faced with giving his opinion on the amount of taxes due from the point of view of the profession, there are too many matters left to the discretion of the Minister of National Revenue and too many references to such bodies as the war contracts depreciation board and the board of referees under the Excess Profits Tax Act. An added difficulty is that the manner in which the Minister exercises his discretion is not made public.

Another most difficult problem under the income tax and excess profits tax acts is the question of special inventory reserves. Apparently as a compromise, the government is willing to allow certain inventory reserves as applicable under the higher brackets of the excess profits tax act, but not as applicable under the income tax act. To our profession, this seems inconsistent. It is hoped that some better formula can be devised which, while giving the government its proper share of the profits, will at the same time enable

the taxpayer to keep his working capital intact and available for use after the war.

We all know that after the last war many businesses were in serious difficulties due to deflation in inventories. I have previously referred to the fact that the driving force behind economic activity is the profit motive. With the present high taxation in Canada, the Dominion government is even more interested in the benefit of the profit motive than are the shareholders of the companies themselves. The owners of the companies are, as a rule, quite willing that the government should take the bulk of the profits during wartime, but they do hope that when the war is over, they will at least have their working capital and fixed capital intact. If the stability of our industry is to be maintained, it seems to me to be very much in the interests of the Dominion government to see that when the war is over, industry in Canada is able to carry on.

Continued improvement of accounting methods can also save time to the taxpayer, his auditor and the tax collector. May I make one suggestion concerning an ever-present problem, the importance of which has increased greatly with the coming of war industries? I refer to the provision of depreciation reserves, and my suggestion is that all amounts reserved for depreciation should be represented amongst the assets by cash or the equivalent thereof in a Depreciation Fund, such funds to be used only when the asset on which the depreciation was charged was being renewed or replaced.

The increased work and the reduced staffs, particularly in the junior and intermediate brackets, have made it imperative that there should be no unnecessary checking or waste of effort on the part of the accountant or his assistants. Here again comes the necessity of better accounting methods, and particularly the extension of the principle of internal check wherever possible.

Multiplicity of Taxing Bodies

There is one other situation affecting business and our profession which, if dealt with, would result in a great improvement and tremendous saving of time and cost to everybody concerned. I refer to the report of the Royal Commission on Dominion-Provincial Relations which was submitted to the Dominion parliament in June 1940. This

report dealt extensively with the complicated and duplicatory systems of taxation imposed on the business and people of Canada by the different governments—federal, provincial and municipal—and made drastic recommendations, the implementation of which would bring about a tremendous saving to the taxpayer, as well as to the different governmental authorities, and the profit to the country would be enormous. While the Dominion government has offered to the provinces an opportunity for the duration of the war of partly putting into effect the recommendations regarding central collection of income and corporation profits taxes and some of the provinces have indicated their intentions of accepting the offer, that is only a small portion of the improvement that would take place if the proposals were fully implemented.

The problem of increased work combined with less well-trained and often greatly reduced staffs must in the office of the accountant be met with greater efficiency of organization—cutting down of waste time, careful supervision of audit programmes, and when every other possible thing has been done, greatly increased overtime.

Senior members of the profession who have been looking forward to reducing their labours and responsibilities have had to turn their minds back and take on the struggle with increased tax problems and more complicated working papers. Mr. Chips has come into his own again.

GOVERNMENT CONTRACTS AND THE CONTROL OF COSTS

A Summary of the Fourth Report of the Select Committee on National Expenditure in Great Britain for the Session 1940-41

Introduction

Purpose of the Committee—The committee was appointed to examine moneys paid out for the defence services, civilian defence and all other services directly connected with the war. Its purpose is to report on any economies consistent with the execution of a given policy, and enquiry is made into past events, not to produce sensational evidence but to determine methods of preventing

waste and extravagance. The committee believes that the national interest can best be served if the aim of the investigation is the securing of the efficient and economical utilization of the nation's resources.

Government Trading in War—Under war conditions the relations of the state with industry undergo far reaching changes and some observations related to the changed relationship as laid down by the committee are given below. Greater simplicity of method and uniformity of treatment within particular industries should be attained although it is impracticable to lay down rules for general application because of the wide range of the government's requirements. Control of output of an industry depends on the proportion of output taken. The government should endeavour to reap the benefits obtained by mass production and this can be accomplished by standardization of products. In the interests of economy of the nation's resources careful consideration must be given to the quality and quantity of the products required. The need for speed gives rise to such wasteful methods of procedure as the "cost plus" contract which offers no incentive to economy but in the form of "cost plus a percentage" places a premium on inefficiency. (Maximum output can be achieved only by economical production which is dependent on the efficient use of men and machines.) Since economy is of prime importance it is urged that the control of expenditures exercised by the Treasury remain effective in wartime. It is pointed out, however, that the curtailing of war expenditures, which in effect prolongs the war, is a gross extravagance. Negotiations between government and industry can be made easier by more rigid definitions of the terminology employed.

Types of Contract

Fixed Price—This type surpasses all others in securing efficiency and economy, and when competition is fully effective the control of costs can be left with the contractors. Inelasticity of price is its chief merit as the contractor, not the state, is responsible for losses and the opportunity for profits provides a stimulus to increased efficiency. The incentive to economical production is not entirely removed by the excess profits tax because the contractor is motivated by fear of loss. Use of the fixed price contract would

be more widespread if there were general recognition that maximum output can not be achieved without maximum economy in the use of the nation's resources.

Running Contract—This avoids the necessity for accurate forecasting of future needs, but does not secure the reduction in price which should be obtainable on increased orders.

Deferred or Adjusted Price Contracts—The type of contracts coming under this heading can be classified, based on the degree of price elasticity introduced, as follows: (1) target cost with a limit on payment of excess over the target, (2) maximum price, (3) cost plus a fixed profit (or a management fee), and (4) cost plus a percentage.

Target Price—In the target price type of contract some incentive to cheap production is retained, but it is less effective than the fixed price contract where the contractor retains the whole amount that may be saved. There is the possibility, moreover, that the increase in profits may not be sufficiently large to warrant the extra effort needed to attain the utmost efficiency. In addition to an estimate of probable costs before work is started, "target price" contracts require the determination of actual cost and this often seriously delays final payment. As the "target price" contract can not be used in new work on which there is not sufficient knowledge to base costs, the principle is only applicable to the intermediary stage of projects before a fixed price can be established.

Maximum Price—This type is adopted in order to limit the extravagance that may be found under the "cost plus" types of contract, but it does not offer the contractor any incentive to reduce costs below the agreed maximum.

Cost Plus a Fixed Profit for a Management Fee—Where profit is fixed at a certain amount per article, there is some incentive to increase output and in the case of an efficient firm this should result in more economical production.

Cost Plus a Percentage—All cost plus types of contracts have no other merit than simplicity. They offer no inducement to efficiency or economy although some well managed firms (believed scarce) might not need such incentives. Cost plus contracts should be limited to the

initial stages of production where there is not even sufficient data on which to use a maximum price contract.

The committee is doubtful whether efficiency in an organization can be maintained in the absence of the economic pressure of the profit motive which characterizes rival business transactions. The target price has been favoured because government departments have concentrated on reducing the contractor's profit rather than obtaining a cheap price. The committee maintains that maximum output is unlikely to be attained under conditions where costs are to any considerable extent above the minimum.

The Control of Costs

It is a mistake to suppose that output can be expensive in terms of money and yet cheap in terms of the nation's productive resources. Therefore the control of costs is the simplest method of obtaining maximum economy and efficiency. "The control of profits, though equally necessary, is relatively unimportant."

Cost Elements in Prices—While the prices of essential materials should be controlled, other factors also affect production costs. Materials must be on hand when they are needed and it is the duty of cost examiners to comment on delays and designate whether the government department or the contractor is at fault.

The cost of labour is not receiving proper attention although it is recognized that the factors affecting wage rates are numerous and complex. It is recommended that bonus payments, the amount of overtime and the organization of the working week be investigated. The shortage of experienced staff is noted, and the committee believes that more control is needed to stabilize labour conditions and to avoid waste of the taxpayer's money.

An attempt should be made to achieve uniformity in the allocation of overhead within an industry so that costs of the same type of product would be comparable. Identical accounting systems within the same industries would facilitate comparisons. Moreover, the allocation of overhead should be in sufficient detail to provide the necessary checks. There is need of a clearer definition of the overhead costs that can be charged to war contracts. The committee points out that decreasing civilian or export business does not

justify the charging to war contracts of any portion of overhead costs not incurred in connection with such war work.

Purpose of Cost Investigations—When the terms of a fixed price contract have been established by fully effective competition, the investigation of costs can be limited to the acquisition of information which can be used in future bargaining or cost estimation. Fully effective competition, however, because it is based on idle capacity distributed over several firms combined with their willingness to accept additional orders, tends to be curtailed in wartime. New products, increased demand (sometimes bringing about the utilization of even inefficient firms) and the need for urgency all militate against conditions fulfilling the requirements of effective competition. Moreover, in the case of specialized work only those firms that have the proper equipment can be employed. It is recognized that a contract based only on partial competition is not beyond criticism and therefore no useful purpose is served by fostering the weakened competition which exists in a war economy.

Methods of Cost Investigation—The only alternative to competition as a basis of a fair fixed price contract is the estimation of the costs to be incurred either by means of technical costing or by the application of the data obtained from post costing of previous contracts. As technical costing is based on a detailed survey of materials and labour in each stage of production, use must be made of technical experts (as distinct from accountants) who might otherwise be engaged in production. It is the practice of the Admiralty to base fixed price contracts on technical costing although cost estimates for repair jobs have been abandoned because of the deflection of expert technicians from more important work.

When a fair price cannot be fixed in advance by reliance on competitive offers, previous experience or technical costing, it is common practice to employ a deferred price type of contract with power to apply post costing in order to determine actual costs and the amount of overhead to be permitted.

Objections to Post Costing—There are only a limited number of qualified cost accountants available and the de-

lay and disturbance to production caused by detailed costing will be aggravated by the employment of additional but less experienced cost accountants. The committee recommends that spot checks replace in some degree the costing of every contract although it is recognized that this is not very satisfactory in types of contracts where post costing is the only check on expenditures. Post costing can not ensure economy in the actual contract to which it applies. Certain costs can be disallowed (e.g. commissions) but it has been the practice to authorize all legitimate costs (e.g. direct labour) regardless of whether they are too high. Abnormally high costs can be brought to the attention of the government, who in turn is then in a position to take steps to remedy the firm's inefficiencies.

Use of Company Auditors—There is evidence of duplication of work when cost investigations are undertaken by more than one government department, especially when adequate use is not made of the firm's own records. To remedy the situation the committee points out that "most firms of standing possess highly developed accounting systems often especially prepared . . . to meet the individual needs of their business; when such figures are available they may provide valuable information upon the course of current costs of production and when certified by (firm's own) auditors could be accepted for the assessment of total allowable costs in many cases—subject to the rights of government departments to institute independent cost investigations in specimen cases or those presenting special features."

Government departments should endeavour, especially during negotiations for new contracts, to obtain modification in a firm's accounting system to make it comply with departmental requirements.

The data gathered by periodic surveys of costs made by firms should be made available to government departments in order to provide a closer check on costs—especially the effect of overtime on labour costs.

The committee feels that, when applicable, process costs should be adopted in order to provide a better check on efficiency.

Other Checks on Waste and Inefficiency—The committee stresses that cost investigations are not aimed directly

at saving money which is liable to result in false economy, but the major object is to secure maximum efficiency which in its turn connotes maximum economy. The past performance of a contractor should be investigated from the standpoint of experience, equipment and reliability in deliveries as well as relative costs. When the entire output of an industry is required, well managed firms should endeavour to improve efficiency of others regardless of the effect on peace time competition. In deferred price contracts the use of technical costing in fixing prices will aid in reducing waste. When a cost-of-living bonus, in addition to a basic wage, is paid the index must measure only the prices of commodities consumed in wartime. It is recommended that an incentive to install improved machinery be provided by rewarding more efficient manufacturers.

Profits

Although on general grounds it is necessary to prevent profiteering either by employees or employers, it is needful to preserve a sense of proportion. Profits, after all, represent only a small percentage of total costs and therefore other elements in price should receive the chief attention. Cheap production is vital to the successful prosecution of the war but generally speaking the excess profits tax has removed the incentive to maintain costs at a minimum.

Rate of Profit—Profits expressed in terms of cost of production make it difficult to establish a uniform rate of profit on government contracts. It is recommended therefore that return on the contractor's capital employed should be used in assessing a fair profit.

If a uniform rate of profit could be established, it would reduce disputes and the time spent negotiating new contracts. Because certain risks have been assumed by the government, the rate of profit should be lower than in normal commercial manufacturing. There are strong arguments in favour of retaining to some extent the method of bargaining. Flexibility may encourage initiative and enterprise by introducing special incentives where exceptional effort is required. To this the committee attached particular importance.

The determination of profits depends on two main considerations: (1) fair remuneration for the use of capital, and efficiency of skilled supervision, and (2) incentives to econ-

omic management, good buys and increased production. The elimination of unnecessary bargaining, however, on each individual contract offers such important advantages that every effort should be made to arrive at standard rates calculated with reference to a fair return on capital employed. In some cases, entire associations have agreed to accept a standard rate of profit.

Sub-Contracting and the Employment of Small Firms

The contractor should be paid for any service given in submitting the contract, but wartime arrangements have relieved the contractor of many of his responsibilities in this connection and therefore his profits should be lower than in peacetime. Government departments should deal as far as possible with firms of proven reliability but schemes such as the "parent firm" and "embodiment loan" have been devised to distribute the production of war materials among smaller firms as it is desirable to make the fullest use of their capacity.

Departmental Organization

The contracts co-ordinating committee with the help of industrial representatives should consider the greater standardization of general conditions of contract and draw up common form clauses which should not be varied in individual contracts without special permission.

ACCOUNTING AND THE INVESTING PUBLIC

By A. R. Haskell, Toronto

Editor's Note: A Better Business Bureau functions in a number of the cities throughout Canada and the United States. It is a non-profit organization formed and supported by local business and professional men for the sole purpose of protecting the public against swindlers and the ever-increasing types of confidence schemes. Such schemes are promoted by individuals or by groups of men and women who have received considerable training in the art of trapping the gullible public. Helpful radio broadcasts are given regularly by some of the bureaus, and the Toronto Better Business Bureau, for instance, broadcasts for a period of fifteen minutes every Saturday afternoon a talk by its manager, Mr. A. R. Haskell, on schemes that have come to his attention. On 4th October last, Mr. Haskell spoke on how important it is for the investing public, before acquiring the shares or other securities of a company for investment purposes, to analyze the financial statements of such company, and his address is published below. Some of the particulars in this address came from a pamphlet "Accounting and Your Pocketbook" published by the American Institute of Accountants, New York City, and Mr. Haskell wishes to acknowledge the assistance received therefrom.—A.H.C.

FROM time to time during these broadcasts, we have referred to the valuable services that are rendered by accountants and auditors, and in view of the fact that we have often been asked what services an accountant or an auditor performs, we have decided to give you certain information relative not only to the services performed by properly qualified accountants, but the responsibilities which are assumed by accountants and auditors in relation to your business and your pocketbook.

There are a number of bodies of practising accountants who are authorized under Government charter to grant certificates to persons who have qualified through study, examinations, and practice. The largest body having the most members is The Dominion Association of Chartered Accountants and its nine constituent provincial Institutes.

It has been said that "once a business becomes too big for one brain to handle personally, accounting takes over the job."

Accounting is a means of keeping track of infinite numbers and varieties of involved business transactions. It is the language with which business management tells its employees, stockholders and creditors, as well as the government and the general public, how the funds entrusted to it are safeguarded and used.

Accounting is the only medium from which reliable information may be secured about the financial condition and results of an enterprise, whether it is a private business or the government itself.

The results of accounting are expressed in balance sheets, profit and loss statements, analyses of surplus and other forms of financial statements.

Accounting has two main purposes: first, to record in an orderly fashion in books of account what happens in business—where the money comes from—where it goes; and secondly, to interpret these records, that is to say, telling whether the concern is solvent or not, whether it made a profit or a loss. This may sound simple, but more often than not it is a complicated job.

For instance, it is often difficult to decide whether the expenditure of money is a current expense to be deducted from the earnings of the year or an expense which should be spread over the period of years and if so, how many? The decision, of course, is reflected in the financial statements as more or less profit or loss, and more or less surplus. The decision may determine whether or not a concern pays dividends and what its future policy shall be.

It is also difficult sometimes to determine the amount at which securities, debts due the company, stock of merchandise, buildings and machinery shall be shown in the balance sheet. These decisions again affect the surplus and add to, or subtract from, the profits set forth in the statements.

Significance of Financial Statements

From the foregoing you will appreciate that financial statements, although expressed in dollars and cents, are not statistical presentations of fact. They represent the judgment of a company's management and its accountants as applied to the facts. Accounting is not, as some believe, an exact science. No one can possibly state with complete certainty the exact value of everything appearing on the books of a company, because the present value of an asset depends upon what somebody might pay for it, or what income it might produce in the future, and the future cannot be foretold by anyone.

Some doubt might arise in your mind at this point that if financial statements represent nothing but estimates of

what might happen, how can they be very helpful to those who want to know what is happening to their money?

There is a lot of difference between a random guess and an expert estimate. The purpose of accounting is to assemble the data and to make the approximations as accurate as possible. The experience of generations plus persistent studies of the theories underlying accounts has developed a body of accounting conventions, precedents, procedures and principles, which have been found to work well in practice.

No business executive or accountant is enough of a prophet to tell exactly what percentage of the money due a company will actually be collected. Experience and training enable an accountant to estimate pretty accurately from data available, the percentage of accounts owing to the company which will be paid, but the figure in the balance sheet is to some extent an estimate.

The same remarks apply to merchandise on hand or what is known as inventories. A commonly accepted method for estimating the value of goods on hand is "cost or market, whichever is the lower;" but just what is meant by cost—the actual amount paid out for each unit of goods in stock, or the average cost of all, or the cost of the latest unit purchased? Is market today's selling price? Who knows whether the product will actually realize the figure mentioned? Or is market the cost of replacing a unit under today's conditions? Accounting has to find a fair average—it can't be exact—depending on the particular trade, business conditions and previous experience.

A great many people receive reports from various companies in which they have invested money or are otherwise interested; to these people who are listening to me today, I would suggest that you make sure that you receive an auditor's report and study it carefully.

On previous occasions I have referred to the subject of investing money in a new business or becoming a partner in a business that is already in operation.

The first step that should be taken by anyone who proposes to purchase a business outright or invest a sum of money in a going concern, no matter how large or how small, is to insist upon obtaining statements showing the financial condition of the company, prior to paying any money or signing any documents. Such a statement should be com-

piled and signed by an independent public accountant, who is a practising member of one of the professional societies of public accountants.

Everyone should investigate the prospects of a business, as well as the merits of the products which the company in which he is interested proposes to sell by taking the elementary precaution of employing a person who is qualified to find out all about the financial structure of the company.

By following this prospective investors would automatically ascertain whether the company in which they propose to invest their money has made a reasonable profit for a period of a year or more, prior to the time in which they are asked to make an investment or purchase the assets of the concern outright.

Once again we remind you of the value of the main slogan of every Better Business Bureau: INVESTIGATE—BEFORE YOU INVEST.

Purpose of an Audit

I have stated previously that accounting should present fairly the condition of an individual business and the results of its operations. The "right" accounting method in one business or in one set of circumstances might distort the picture seriously, if applied to another.

A question that is often asked the Better Business Bureau by the public is, what is the difference between accounting and auditing?

Well, auditing is a check-up on accounting.

Almost every enterprise or institution represents a trust which holds and manages the savings of others. Naturally, this has led to a demand for a competent and disinterested review and check of the accounting records, and the accounting judgment of management officials as expressed in their accounting statements. This outside check-up, generally known as an independent audit, is usually performed by a Chartered Accountant or a Certified Public Accountant, both of whom have the required skill and professional judgment to do this work.

These professional gentlemen, as I have stated before, are skilled in a highly specialized type of work. They are independent in their approach to their work, and they do not get fooled very often.

You will appreciate, I am sure, that no human being can possibly "guarantee the accuracy of statements" as you no doubt realize by this time, accounting itself does not result in accurate measurement in the sense of exactitude, but only in close approximation based on the best available judgment; and what the auditor does is to express his opinion which results from his checking of the accounting records as to whether this accounting judgment is sound or not. This opinion, for which the auditor takes full responsibility, states whether the various items in the financial statements are presented in accordance with generally accepted accounting principles so as to fairly reflect the position of the company and the results of its operations.

There are three questions that you might ask. The first is, how do I know the accountant knows his business? How do I know he is independent, and what controls are there over him?

Most practising accountants must pass rigid examinations, and in the majority of cases, spend a certain amount of time in the office of a firm of practising accountants before they can obtain a certificate permitting them to practise their profession.

The auditors of any large company are invariably appointed by the shareholders at the annual general meeting of the company. Consequently, a shareholder of any company may have an opportunity of suggesting the appointment of any particular auditor or firm of auditors, or he has an opportunity of casting his vote for the appointment of an auditor or auditors proposed by some other shareholder.

Accountants and auditors, of course, are subject to the rules, regulations and discipline of the society to which they belong. Consequently, they must follow a strict code of ethics.

Actually these associations of accountants and auditors have rapidly developed the background of scholarship in their work, they have encouraged the gradual raising of the intellectual standards which must be met by every candidate for a certificate as a Chartered Accountant or Certified Public Accountant. They have been pioneers in the field of business education and have played a leading part in the establishment of schools of business, commerce and accountancy.

Properly qualified auditors not only provide invaluable services for the companies and institutions who engage them, but they perform an invaluable service to the public, including shareholders and others to whom the statements of thousands of companies, both large and small, are forwarded as well as from time to time being inserted in the daily press.

We have repeatedly stated during this series of broadcasts, especially those which have referred to purchasing or making an investment in a business, the importance as well as the necessity, of employing a qualified accountant to investigate the financial structure of any concern, no matter how large or how small.

Whatever fee a qualified accountant may ask you to pay to investigate a business BEFORE you sign any agreement to purchase a business, is money well spent.

Remember, BEFORE YOU INVEST—INVESTIGATE.

FRAUD IN ACCOUNTS*

By R. G. H. Smails, Chartered Accountant,
Kingston, Ontario

IN the "pussyfooting" and "appeasing" decades of the 20's and 30's when men were too tired or too timid to look the world in the face it became fashionable for those who wrote or spoke on the subject of auditing to comport themselves as though fraud in accounting records was a moral aberration which disappeared with the Edwardians (if not with the Victorians) and one no longer to be encountered in the new age of efficiency and purity. The auditor might, in exceptional circumstances, find occasion to criticize, but his criticism would be directed towards innocent error of execution or judgment rather than against such a crude and vulgar thing as deliberate and fraudulent manipulation.

The last few years have stripped the world of many illusions and, among them, of the pretence that fraud in accounts is a thing of the past to be confronted by the auditor rarely if ever, and then only in the most obvious

*A lecture given at Toronto on 7th October by Professor Smails to the Ontario Chartered Accountant Students' Association.

circumstances. The Securities and Exchange Commission of the United States has contributed as much as any other single agency to this process of disillusionment and the accounting profession is indebted to the Commission.

The type of fraud with which the accountant is concerned ranges from the fifty cents overstatement of petty cash payments by the office boy to the million dollar overstatement of assets by the corporation president. Through the entire range the object is to conceal—at the lower end to conceal misappropriation of cash or its equivalent, at the higher end to conceal the dwindling fortunes of a commercial or industrial empire. The office boy borrows fifty cents to put on a tip for the King's Plate and intends to repay the "borrowing" out of his winnings; the corporation president is confident that he can restore the fortunes of his company (and so save shareholders and creditors from heavy losses) if only he may for a time withhold from them and from the world at large the knowledge that his company is in distress.

Misappropriation of Assets

In the manipulation of records to conceal a misappropriation of cash one or more of a number of well-tested recipes are employed depending on the particular circumstances and the audacity of the operator. For example an employee who misappropriates cash and who wishes to avoid detection has either to falsify the books so that the amount of cash for which he is responsible appears less than it really is or he has to make it appear that the amount of cash on hand and/or in the bank is greater than it really is. The first method (which is the more artistic of the two) involves either the omission from the books of cash received or the inclusion in the books of payments which were never made. The second method includes such sleight-of-hand tricks as causing the same cash to be counted twice, and the preparation of a dummy bank statement or pass book. Three cases of recent occurrence may be cited as illustrations.

In *County of Renfrew v. Lockhart et al* [1933] O.W.N. 627 (one of a number of cases of embezzlement of municipal funds to occur in recent years) the treasurer of the county of Renfrew over the period 1925-30 converted to his own

use moneys of the corporation to the total amount of \$118,000. He concealed the shortage by showing, as still unpaid, taxes which he had, in fact, collected and by obtaining a duplicate bank pass book and writing it up himself so that it would present an appropriate balance.

In *International Laboratories Limited v. Dewar et al* [1933] 3 D.L.R. 665, the chief accountant who was also cashier misappropriated \$27,000 and in concealing the shortage exhibited a versatility worthy of a larger sum. His methods included the suppression of cash sales of company products to workpeople, the purchase for his private use of a radio and other expensive domestic furnishings which were charged to the expense accounts of the company, the billing, as part of the freight charges of the company, of the cost of a family trip to Europe in great luxury via Canadian Pacific Steamships, and one quite original and ingenious manipulation which resulted in four fraudulent transactions appearing in the bank statement as though they were innocent corrections of bank errors—over a period of time in which there were twenty-six genuine corrections of genuine bank errors.

City Equitable Fire Insurance Company Case

A third example of manipulation to conceal misappropriation of assets is an English one in which the sum involved was great (about \$2,500,000) and the method of concealment somewhat original. This is the case of *Re City Equitable Fire Insurance Co. Ltd.* [1925] Ch. 407 which in 1925 disturbed so rudely the world's faith in London financial institutions. Gerard Lee Bevan, chairman of the City Equitable Company and long one of the most respected figures in London financial circles, was at the same time senior partner in the stockbrokerage firm of Ellis & Co., an old established business whose credit was above suspicion. The City Equitable Company employed Ellis & Co. as their brokers and would place large but fluctuating sums of money with Ellis & Co. for investment. In reality Ellis & Co. since 1918 had been in financial difficulties and were applying the funds lodged with them by the insurance company, not to the purchase of investments for their principal but to the relief of their own distress. That is to say, Bevan as chairman of the City Equitable Company was (with the

collusion of his general manager Mansell) diverting the assets of that company to the partnership in which he was the senior member, and he was able to continue on that course for almost four years. The only manipulation needed was one which would prevent the account with Ellis & Co. from presenting such an excessively large and increasing debit balance as would arouse the suspicion of an auditor who was known to be both capable and conscientious. None of the money handed over to Ellis & Co. was omitted—all was debited to the account with the stockbroker. But on three successive occasions, on the day prior to the date of the balance sheet, there took place a window-dressing operation whose effect was to reduce to insignificant proportions the sum shown to be due from Ellis & Co. and to increase by like amount the apparent holdings of British government securities. On that day Ellis & Co. would purchase through another eminent firm of city stockbrokers (Messrs. Kleinworts) ostensibly for the account of the City Equitable Company some two to three million dollars of national war bonds or treasury bills. They would notify the insurance company of the purchase by issuing a "bought note" and on receipt of this bought note the insurance company would write up its "investments in government securities" and write down the "cash in hands of Ellis & Co. awaiting investment." Three or four days later (with the balance sheet date intervening) the procedure would be reversed; the insurance company would receive a "sold note" advising it of the sale of these securities, investments would be written down, Ellis & Co.'s indebtedness would be restored to its original amount, and an adjustment would be made for any profit or loss on the double transaction.

Inflation of Profits

As illustrations of the second type of manipulation, namely that designed to make a business appear more prosperous than it really is, three recent and sensational cases are available, the British case of the Royal Mail Steam Packet Company and the American cases of Interstate Hosiery Mills Inc. and McKesson and Robbins Inc. All of these cases attained the headlines of the popular press whose reports of their accounting and auditing aspects fell far short of telling the whole story.

The Royal Mail Steam Packet Company was established by Royal Charter a hundred years ago and made steady but not spectacular progress until the war of 1914 when Lord Kysant as chairman developed it into an enormous combine controlling some three million tons of shipping. The company made very large profits during the war but in common with the rest of the shipping industry was hard hit by the post-war slump. Even so it managed from 1921 to 1927 to publish annual statements justifying dividends of four to six per cent on the common stock. In June 1928 it issued a prospectus inviting the public to subscribe for \$10,000,000 of five per cent debenture stock.

The following year an application by the company for an extension of a government guarantee under the Trade Facilities Act led to an independent investigation of the company's affairs. This revealed that the company instead of operating at a profit had incurred heavy losses in every one of the years 1921 to 1928 and that its financial condition was now extremely grave.

It was for misstatements in the prospectus of 1928 that Lord Kysant went to prison, but to understand those misstatements it is necessary to examine one feature of the annual statements published in the seven previous years. These statements showed for each year a credit to profit and loss account sufficient to meet all interest and dividend requirements of the year, which credit was described as "Balance for the year including dividends on shares in allied and other companies, adjustment of taxation reserves, less depreciation of fleet, etc." The prospectus declared, "During the past ten years the average annual balance after providing for depreciation and interest on existing debenture stocks has been sufficient to pay the interest on the present issue more than five times over."

Abuse of Secret Reserves

Lord Kysant, without ever actually so stating, contrived to convey to the whole world the impression that the company was *operating* successfully, that is to say that its current shipping business was remunerative. In fact the annual credit to profit and loss account represented an operating loss offset by transfers from secret reserves built up during the war, and by paper profits resulting from manipulation of companies controlled by the Royal Mail

Steam Packet Company. It is necessary to obtain some idea of these transactions and first the transfers from secret reserves. As has been said, the company made very large profits during the war. These rendered it subject to excess profits duty, the final assessment of which was frequently a protracted matter which might drag over three or four years. As a provision against the liability to excess profits duty the company included amongst its accounts payable a sum of roughly \$15,000,000. The duty was finally assessed and paid in 1921 at half this amount and the company therefore had included in its accounts payable \$7,500,000 which was not a liability at all. As earnings dropped this alleged liability was written down and the profit written up by like amount. It should be noted that this particular transaction did not result in the net worth of the company being represented as greater than it actually was; it did result in a progressive reduction of the amount by which the net worth of the company was understated. That is the danger of the secret reserve.

The paper profits of which mention has been made were of two kinds, both of which are made possible by the holding company form of organization. In type A the holding company buys all the shares in an old established company which has accumulated a large surplus and then forces the subsidiary to declare a dividend for the amount of this surplus, which dividend it treats as income and puts to the credit of profit and loss. Lord Kysant did this with the Nelson Lines in 1927 to the extent of \$1,500,000, thus treating as income what was, in fact, part realization of an investment. In type B the holding company sells some of its fixed assets to a subsidiary at a price greatly in excess of their cost and treats the excess as profit. The Royal Mail Steam Packet Company sold to one subsidiary (the Nelson Steam Navigation Co.) the shares which it held in another subsidiary (H. & W. Nelson) providing the purchaser company with the necessary cash funds by subscribing to a further issue of common shares. Again a "profit" of more than a million dollars was created and used to produce a credit "balance for the year."

These are merely simplified examples of the strategies by which Lord Kysant for eight years sustained the false front of his tottering empire and which were found by the

jury to constitute of the prospectus a statement false in a material particular with fraudulent intent to induce persons to invest property in the company.

Interstate Hosiery Mills Case

The second case which is being taken to illustrate manipulation not involving misappropriation, namely Interstate Hosiery Mills Inc. (S.E.C. Release No. 2048), is unique as representing a complete turning of the tables—a fraud perpetrated by the senior in charge of an audit on the management of the client company. An investigation by the Securities and Exchange Commission of the affairs of this company revealed that over the years 1934 to 1936 operating profits had been overstated by approximately \$900,000 and that at the end of this period the balance sheet contained fictitious assets to the same amount (cash, accounts receivable and inventories). The author of these falsifications was a man of the name of Marien who since 1929 had been placed in charge of the audit by the reputable and substantial firm of certified public accountants who were acting as the company's auditors. The motive which inspired this extraordinary performance does not emerge clearly from the report. Self-interest apparently operated to some extent for there is mention of cheques forged on the company's bank account. But the amount of these forgeries does not seem to be commensurate with the manipulation of the accounts and we may accept, at least as a half truth, Marien's protest "that he must have been crazy, that he received nothing for what he had done, and that he did not know why he had done it." The method of the manipulation was simple in the extreme and raises the question why Marien did not give his imagination free rein and produce a truly prodigious balance sheet. The company employed merely a staff of bookkeepers and had no officer who could be designated as either an accountant or a comptroller with the result that Marien himself prepared the financial statements which he presented to his principals for certification. After entering sheets which represented a trial balance of the figures actually shown by the books of the company he substituted for submission to his principal other sheets which contained figures drawn from his imagination and which the principal painstakingly and conscientiously checked to the final statements. There was

therefore no correspondence during the years 1934 to 1936 between the figures on the general ledger (which, incidentally, was always out of balance) and the figures of the statements certified by the company's auditors. On these facts the Commission found itself in the peculiar position of reprimanding the management of the company for not checking the auditor! "The duty to compare the [auditor's] reports with the internal reports follows not only from the obligation to test the accuracy of the latter, but also from the obligation of the management to use all available means of assuring the correctness of its public financial statements. It is of course true that [the auditors] were employed to check upon the internal employees, and not vice-versa; yet until all inconsistencies between the reports received from these two sources were satisfactorily explained, both sets of data were open to question." Of greater importance perhaps is the Commission's finding: "We entirely agree with the testimony of Davis that an audit should be a check by an outsider of original work done by the client's employees; if an accountant is permitted to do original work, the whole purpose of the audit is lost."

McKesson and Robbins Case

Of the last case, to be considered, McKesson & Robbins, the more lurid features will be fresh in the minds of most readers. Recalling that almost \$3,000,000 of cash was lost in that case some may wonder how it can serve as an illustration of a manipulation *not* involving misappropriation. The explanation is that the misappropriation was a minor incident in a greater scheme; it represented the out of pocket expenses of a great artist rather than the gains of a thief.

McKesson & Robbins Inc. was organized in 1928 as a holding company to take over the hair tonic business of Girard & Sons and the old established manufacturing druggist business of McKesson & Robbins. Donald F. Coster the founder and president of Girard & Sons became president of the new company and through common stock holdings controlled its destiny. Under his guidance the company embarked on a scheme of expansion which made it by 1938 probably the largest wholesale drug combine in the world, with activities extended to include the distilla-

tion of spirits and the wholesaling of imported and domestic wines. There was also developed by the president, who had personal charge of it, a "crude drug" division which was engaged in the export trade in unprocessed drugs. This division operated through two agencies which handled all the buying, selling and warehousing—W. W. Smith & Co. an English firm, and Manning & Co. a partnership in Montreal. The manufacturing division of the company at Bridgeport bought its own requirements directly and not through the crude drugs division.

The Exposure

Early in 1937 Julian Thompson, treasurer and director of McKesson & Robbins, noticing that the crude drugs division, though profitable, was not bringing in any cash but rather was drawing cash away from the other divisions, complained of this condition to Coster who promised to look into things and set them right. Nothing however was done. Thompson eventually became suspicious of the real activities of the division and in October 1938 confided his suspicions to Michaels the executive vice-president of the company who instructed him to obtain legal advice (at his, Michael's expense) and to prosecute a secret investigation. By 5th December Thompson had conclusive evidence that the crude drug division was a myth and later in the evening of that day McKesson & Robbins was placed in receivership. There ensued the exposure of the most fantastic accounting manipulation in the history of business.

The last balance sheet to be published before the disclosure (that of 31st December 1937) was found to contain approximately \$19,000,000 of non-existent assets (inventories, accounts receivable and cash) while the fictitious gross profit recorded over the years 1932-1937 amounted to nearly \$9,000,000. No idea of the complexity and artistry of the manipulation can be obtained unless it is realized that in order to procure the convincing presence (in the books and on the balance sheet) of these fabulous millions the manipulators over a decade had devised tens of thousands of imaginary transactions aggregating over \$100,000,000 and had supported these transactions with original documents such as purchase orders, purchase and sales invoices, and correspondence, all of which bore the stamp of authenticity.

The formal statement of charges examined by the Securities and Exchange Commission read: McKesson & Robbins Inc. had in 1935, 6, 7 and 8 filed financial statements containing "materially false and misleading information; that the inventories item included merchandise purported to be carried for the firm's account by certain Canadian firms that were non-existent save as mailing addresses; that the merchandise referred to was likewise non-existent; that the item 'customers' accounts receivable' included large sums purported to be owing by reputable foreign firms which did not in fact have any transactions with or owe money to McKesson & Robbins: that the items relating to cash on hand and on deposit included a sum owing by Manning & Co. which purported to be a private banking concern but was also non-existent save as an accommodation address; that the sales shown in the accounts included transactions through the purported sales agency of W. W. Smith & Co. which were never made and were merely book entries; and that other items purported to be payments to Smith & Co. for guaranties and services relating to sales which had never been made." Not mentioned in this formal statement of charge but an essential feature of the detailed scheme was the forgery of innumerable documents—credit reports, letters of confirmation from suppliers' warehouses, invoices, orders, receiving tickets, shipping notices, bills of lading, bankers' statements, inventory tally sheets, and inventory summaries. The evidence of Miss Rose Otting, stenographer formerly employed by George Vernard at Stamford, Connecticut, indicates the sort of use that was made of certain of these papers: "I typed documents on the headings of numerous concerns with different names including Manning & Co. and W. W. Smith & Co. I would receive McKesson purchase orders once a month and make out invoices and debit advices. I would also type the Smith purchasing orders and notices of shipments. I used different typewriters for each different concern." Asked if it had struck her that there was "anything odd or unusual" in the work she was doing, Miss Otting said, "Yes it struck me as odd but I thought the business was that of a holding company, and that the various companies for which I made out documents were its subsidiaries." Similar employment was enjoyed by two young Canadian women in Montreal who found their jobs "rather lonely."

Collusion "Extraordinary"

But all this ingenuity would have availed nothing and the first manipulation would have been detected within twenty-four hours if there had not also been in operation a quite incredible system of collusion between the president of the corporation, the assistant treasurer, the head of the stock department and a very accomplished outside operator George Vernard. Within a week of the announcement of the receivership, F. Donald Coster the quiet, dignified, native born American, alumnus of Heidelberg and doctor of medicine was identified by finger printing as Philip Musica an Italian émigré, who (1913-16) had served a penitentiary term for a fraud which had netted him a million dollars at the expense of New York banks. George Dietrich the assistant treasurer and the outside man George Vernard turned out to be Philip's younger brothers George and Arthur Musica, while several other members of the McKesson & Robbins staff were found to be aware of Coster's identity and to be associates of the Musica period.

One after another the men who had been associated with Coster over the years 1928-38 either on the board or on the executive committee testified before the Commission that they never had the slightest occasion to doubt his honesty or integrity; they trusted him implicitly. And all were men who had been a part of the financial and commercial life of that same city of New York which Philip Musica the Italian immigrant had victimized only a few years before.

The McKesson & Robbins case is baffling in its lack of motive. It did not and it could not put money into Coster's pocket—the only money taken out of the business was that required to operate the mythical crude drugs division, about \$300,000 per year over ten years. Is a clue to be found in the suicide note in which Coster's by then disordered mind last found expression, "The Company should have been in receivership at the time of the crash in 1930 one year after its reorganization. I have tried to hold it up, to stave off the inevitable—no man has ever worked harder or received less pay to make something work out for the interests of all . . . McKesson should have been in receivership in 1930 and again in 1932 if its profits had not been bolstered in a frantic effort to save the company—and the

alleged millions 'lost' are simply 'profits' to save the company from the hands of the bondholders and afford a dividend at least to the preferred stock in the hands of innocent stockholders that were not getting salaries for the rottenest kind of management." May not Coster have so valued the respect and affection which he enjoyed in this later period and have identified these things so closely with the continued success of McKesson & Robbins that he became possessed of a maniacal determination to make the McKesson & Robbins balance sheet bigger and better every year? Or was his scheme simply art for art's sake? Or was it, as it was at first suspected to be, a cover for some sinister operations which have not yet been discovered? Probably we shall never know. All that is certain is that (in the words of an editorial in the *New York Times*), "Philip Musica achieved what in the field of pure art would have to be called a magnificent art of creation. The observer marvels and gives up as he contemplates the mystery of this extraordinarily gifted man."

The Future

What can be said by way of conclusion to this review of some of the more noteworthy accounting frauds of recent years? Perhaps only these two things: first, that defalcations will continue to occur until all employers recognize fully their moral duty to protect their employees from temptation; and secondly, that managerial manipulations of financial statements will continue to occur until company directors become something more than rubber stamps in the hands of presidents and general managers, and until directors and management realize that the primary responsibility for the accuracy of the financial statements and underlying records of their company rests on their shoulders and not on the shoulders of the company's auditor.

**REPORT OF THE MAGAZINE AND PUBLICATIONS
COMMITTEE***

The President and Council,
The Dominion Association of Chartered Accountants.

Gentlemen:

On behalf of the Committee on Magazine and Publications I take pleasure in presenting the following report for the year ended 31st May 1941.

The past year has been another successful one for THE CANADIAN CHARTERED ACCOUNTANT, the Magazine of our profession. The last annual meeting, it will be recalled, recommended that the yearly subscription price for general subscribers be increased from two to three dollars. Beginning October last this recommendation was put into effect, and it is gratifying that the change did not bring any reduction in the number of subscribers. The total circulation at 31st May was 4,270 as compared with 4,060 at the same date a year ago. Of this number 802 are general subscribers.

Your Committee feels that THE CANADIAN CHARTERED ACCOUNTANT with its monthly issues of informative articles and other matter is its best advertiser. Frequently we have been requested to send a sample copy to a prospective subscriber, with the result that after he had had an opportunity to read and study it, a subscription from him followed.

As this privilege of subscribing to our Magazine is not as widely known as it should be, your Committee has continued to insert in "The Financial Times" (Montreal) and "The Financial Post" (Toronto) a small monthly announcement of the features in the current issue. Some new subscriptions have been traceable to this publicity, but no exact estimate can be made of the results obtained. The "Journal of Accountancy" of the American Institute of Accountants and the "Bulletin" of the National Association of Cost Accountants (New York) make reference in their "current literature" column to particular articles in THE CANADIAN CHARTERED ACCOUNTANT and in this way we have received from members of the profession and others in the United States requests for particular numbers. We take this op-

*This report was presented at the thirty-ninth annual meeting of The Dominion Association of Chartered Accountants held at Vancouver 11th to 14th August last.

portunity of thanking the editors of these two publications for this service and for giving us the opportunity of contributing to the reference literature of the profession there.

The sphere of service of the members of our profession continues to broaden. The extent of the field into which they have been called to give expert advice and assistance can perhaps be more vividly and accurately measured by the older members by their recalling the duties and responsibilities of the chartered accountants of a quarter century ago. Since the sphere of the member in public practice today has extended out and beyond the subject of accounting, your committee has arranged for the publication regularly in THE CANADIAN CHARTERED ACCOUNTANT of articles on financial and economic subjects and of as much information as possible on taxation and related matters. We want to make special mention of the splendid series of economic notes contributed by the late Professor McQueen of Manitoba University, whose articles were a monthly feature up to the time of his tragic death in an aeroplane crash last February. Some of these articles did much to bring to the attention of our profession in other parts of Canada the problems faced by the three prairie provinces.

An examination of the twelve issues of the year shows that apart from the editorial comments, summaries of legal decisions, amendments of income tax statutes, book reviews, general notes and accounting problems and solutions, articles were published on the following subjects

Accounting and auditing	22
Professional matters	10
Financial and industrial	17
Economics	17
Taxation	12
Miscellaneous	5
	—
	83

Twenty-three of these articles were written by members of the Provincial Institutes as follows:

Alberta	1
British Columbia	2
Ontario	12
Quebec	8
	—
	23

REPORT OF THE MAGAZINE AND PUBLICATIONS COMMITTEE

With the adoption two years ago by the Provincial Institutes of uniform examinations, the Students' Department under the capable direction of Professor Smails is performing an ever greater service by the publication each month of problems from recent examination papers together with suggested solutions.

Your Committee wants to express its thanks to all who have contributed to the pages of THE CANADIAN CHARTERED ACCOUNTANT during the past year, to the representatives who have laboured in the interests of the profession by sending in local news for publication and by soliciting from members articles on special subjects, and to all who by word of mouth or by letter have given encouragement to your Committee in a work daily in our minds. We want also to record our appreciation of the generous offer of both the Alberta Institute and the Quebec Society to pay \$25 to any of their members whose articles are accepted for publication in THE CANADIAN CHARTERED ACCOUNTANT.

Our closing request is one which we have voiced heretofore and which we hope will continue to be stressed, namely, that the older members need to realize that they have a responsibility to the profession to contribute their time and thought to the preparation of articles on subjects with which individually they above all others are familiar. Like the medical profession and other similar bodies, our profession will grow and widen its usefulness and esteem by the pooling of knowledge of specialized fields in which members mutually need the light to be shed by others.

Respectfully submitted,

W. J. SAUNDERS,
Chairman.

Toronto,
30th June 1941.

ANNUAL MEETING AMERICAN INSTITUTE OF ACCOUNTANTS

AT THE annual meeting of The Dominion Association of Chartered Accountants held in Vancouver in August last, Mr. M. C. McCannel of Edmonton, President of the Association, was appointed the official delegate to the fifty-fourth annual meeting of the American Institute of Accountants to be held in Detroit in September. Mr. McCannel has submitted the following report of his visit.

In company with the Secretary of our Association I attended the fifty-fourth annual meeting of the American Institute of Accountants held in Detroit 15th to 18th September last. This annual meeting of the Institute witnessed the largest attendance in its history there being 1,250 registered. This total was exceeded only by the attendance at the fiftieth anniversary of the Institute in New York in 1937.

The council and the various committees of the Institute met throughout Monday the 15th. The general session of the annual meeting was held on Tuesday morning and Thursday morning, and at the former Mr. Carr and I were welcomed as representatives from The Dominion Association of Chartered Accountants. At the Thursday morning session Mr. George McDonald of Montreal, a former president of our Association, spoke on the impacts of the war on the profession in Canada.

The manner of conducting the annual meeting was changed somewhat from that of previous years. Instead of a number of round table discussion groups meeting separately, the whole afternoon or morning session was given over to the consideration of a main topic with a succession of papers presented on the several aspects of the subject. The Tuesday afternoon session was devoted to Auditing Procedure at which papers were presented on "Auditing standards and auditing procedure," "Case studies in auditing," "Auditors' reports or certificates," and "Appointment of auditors." On Wednesday morning the session was confined to a discussion of Federal taxes. This proved of very great interest and brought an attendance of over 800 members. Government officials from Washington discussed the relation of their departments with

accountants in taxation matters and the work of the Securities and Exchange Commission. Two separate contemporaneous sessions were held on Wednesday afternoon—one on research and terminology and the other on the internal operating problems of an accountant's office. Several papers were given on aspects of these subjects. The Thursday afternoon session was devoted to aspects of industrial accounting among which were considered the many new accounting problems arising out of government defence contracts. The Wednesday evening feature of a "Question Box" with a panel of experts chosen from leading men of the profession proved both entertaining and instructive.

Officials of the convention expressed satisfaction over the good relations existing between the Dominion Association and the American Institute of Accountants. Mr. McDonald's informative address on taxation, wartime production and the part chartered accountants were taking in Canada's great war effort proved of interest to the convention, and expressions of appreciation followed its presentation.

Both the retiring president of the Institute, Mr. C. Oliver Wellington of New York, and the incoming president, Mr. Norman L. McLaren of San Francisco, spoke of the serious threats to democracy of the war in Europe and voiced the opinion that the defeat of Hitler and his associates was the matter of supreme importance at the present time.

A luncheon was held at noon on Wednesday at which a number of the leading business men of Detroit entertained the Executive of the American Institute, in which group Mr. McDonald and I were included. Other Canadian members attending the meeting were Messrs. J. Gray Mundie, Winnipeg; Gerald Jephcott and W. L. McDonald, Toronto; Guy Hoult, Montreal; John R. McFarlane, Windsor, and G. C. Rowe, Newfoundland.

M. C. McCannel.

Edmonton,
30th September 1941

GLIMPSES OF CURRENT ACCOUNTING LITERATURE

Bulletins

BULLETINS are published semi-monthly by the National Association of Cost Accountants, 385 Madison Avenue, New York, dealing with a variety of specialized cost problems. The following list covers the official bulletins published under Vol. XXII from 1st September 1940 to 15th August 1941.

No.	Date of Issue	Title	Author
	1940		
1.	September 1	Case Study of a Standard Cost System	William E. Perry
2.	September 15	Production and Inventory Control	Sydney W. Warner
3.	October 1	The Normal Base Stock Method—A Case History	Robert R. Renner
4.	October 15	Incentive Plan for a Trading Business	Henry J. Pratt
		Accounting for the Distribution of Motion Picture Productions	Harry M. Iverson
5.	November 1	Provisions in Defense Contracts	Donald P. Perry
6.	November 15	The Control of Gross Margins	William S. Wichman
		Management Versus Budgetary Control	J. William Schultze
		The Control of Capital Expenditures and Investment	E. E. Lewis
7.	December 1	Forecasting	J. A. Livingston
		Forecasting and Budgeting	Henry C. Perry
8.	December 15	Effect of the New Excess Profits Tax on Preparation of 1940 Corporate Income Tax Returns	Harry E. Howell
	1941		
9.	January 1	Distribution of Manufacturing Expenses	G. H. Fitch
		Research, Tool and Engineering Costs	Herman A. Papenfoth
10.	January 15	Unit Functional Analysis of Distribution Costs	Lewis E. Rossiter
11.	February 1	Cost Reports for Operating Heads	I. D. Dawes
		Cost Reports for Management	Harry E. Howell
12.	February 15	Economy Through Use of Office Standards	Edwin B. Gage
		Measuring Accounting Results	W. D. Little

GLIMPSES OF CURRENT ACCOUNTING LITERATURE

No.	Date of Issue	Title	Author
13.	March	1 Expense Control at Varying Volumes of Sales and Production	S. A. Peck
14.	March	15 Cost Accounting in Commercial Banks	Harold E. Randall
15.	April	1 Simplified Payroll Procedure and Labour Cost Distribution	William L. Totten
		Direct Labour Variation Control	Harry C. Nichols
16.	April	15 Cost Accounting for Open-Cut Mines	Harold G. Avery
		Anthracite Production Costs	C. E. Mengel
		Section III—Practice in Accounting for Depreciation	N.A.C.A. Research Study
17.	May	1 An Incentive Bonus Plan Based on Cost Efficiency	C. L. Kingsbury
18.	May	15 Internal Audit Fundamentals	Arnold O. Wolf
19.	June	1 The Controller as Co-ordinator	J. E. McMullen
		Case Study of Branch Operations	Mervyn M. Schade
20.	June	15 Some Management Problems Involved in Defense Contracts	George A. Longeway
		Procedure Under Defense Contracts	R. M. Woodham
		Accounting for Defense Contracts	D. E. Browne
21.	July	1 An Application of Standard Costs in the Steel Industry	E. J. Hanley
		The Use of Standard Costs in the Canning Industry*	Ralph H. Barr
22.	July	15 A Payroll Control Plan	J. D. Robertson
		Use of Duplicator for Wage Payment and Production Control	Vincent F. Lechner
23.	August	1 The Supply Inventory and Its Control	D. Philip Beaudry, Jr.
24.	August	15 The Problems of Merchandise Control in a Department Store	Carl N. Schmalz
		Some Features of the Constant-Wage Plan	C. B. Apple
		Section III—Accounting for Excess Labour Costs and Overhead Under Conditions of Increased Production	N.A.C.A. Research Study

*This article was published in the October 1941 issue of *The Canadian Chartered Accountant*.

Bulletin No. 1, Volume XXIII, 1st September 1941, is devoted to the discussion of pricing policies and carries two articles which describe the pricing methods used in two widely different industries.

The first article on "Uniform pricing" by Raymond E. Jacke outlines the methods used to secure uniformity in the application of pricing policies in the Reynolds Metals Co., a company manufacturing a great variety of products on a made-to-order basis. "When prices are built in the manner described rather than created by some less exact method, there is a much better chance of maintaining uniformity throughout the whole price structure and nothing will remain which might cause customers to doubt the existence of a consistent fair-price policy."

The second article on "The use of predetermined costs in pricing in the shoe industry" by Harold S. Wonson describes the application of predetermined costs as the foundation for pricing in this manufacturing industry.

Bulletin No. 2 Volume XXIII, 15th September 1941, deals with certain aspects of receivables covering the question of control of the credit and collection department and the handling of instalment notes receivable.

Wm. Margulies in "Controlling the costs of a credit and collection department" discusses the general background of the costs of extending credit setting out that, although a collection department must return a greater income than the costs incurred in its operations in order to justify its existence, if it approves too few orders no matter what its costs it is a losing proposition.

In discussing the question of costs, the item of interest, bookkeeping, credit investigation, collection, and loss from bad debts are discussed in detail and the procedure for determining standards is outlined.

Leonard E. Zastrow in "Procedure for instalment notes receivable" outlines the organization of the records of Buajrus Erie Co., a company dealing in heavy roadbuilding equipment, to facilitate the handling of notes receivable and commissions payable.

Articles

1. Accounting Aspects of Bond Redemption
Geo. O. May in the September 1941 issue of *The Journal*

of *Accountancy*, under the heading "Losses as a cause of gain," attacks the problem of the accounting treatment which should be accorded an excess credit arising on the redemption of debt.

"When a company buys its own securities it deals on a value basis with an interest in an enterprise for which it is accounting on a cost basis."

The possible causes underlying the existence of the discount are reviewed and the conclusion is drawn that where the difference between the service value (book value) and commercial value arises due to a variation in the general interest rate then such difference may be treated as an extraordinary profit. Where the difference merely represents a decline in commercial value of the corporation's enterprise the adjustment has no place in the income and surplus account. The suggestion is offered, endorsing the conclusions of the Interstate Commerce Commission in the decision given in the recent Chicago Great Western Railroad Company case, that such discount should be deducted from the aggregate property accounts.

2. Inventories in Defence Industries

An editorial appearing in the August 1941 issue of *The Journal of Accountancy*, "Inventories in Defence Industries," covers a problem which has arisen from the present emergency: "Why take physical inventory of finished and in-process stock and raw materials this year when the taking of such inventories—particularly in the case of goods in process—necessitates a shut-down of manufacturing operations with a corresponding curtailment of production?"

The editor sets out the American standard as to the auditor's responsibility in regard to inventories pointing out that the auditor's testing procedure is "definitely not to be viewed as a substitute for physical inventorying by the client." In discussing the position of the auditor in such a circumstance he states that the auditor "has no choice but to qualify his report if there has not been a complete, or at all events a substantial, check-up of the inventory."

The following specific extracts taken from the directors' and auditors' reports for certain Canadian companies are interesting in light of the above comments.

Dominion Woollens and Worsteds Limited 31st December 1939

Directors' report:

"The usual physical stock taking at the year end which necessitates a shut-down of mill operations was dispensed with owing to the urgent demand for military fabrics, and our perpetual inventory record figures, which in the past have proved to be accurate, are used in the balance sheet. The inventory has been valued on a basis of pre-war prices for materials, labour and certain supplies, producing a resultant value which is at or below the lower of cost or market at 31st December 1939."

Auditors' report:

"The inventories were determined from perpetual book records in the absence of a physical stock taking."

Ford Motor Company of Canada Limited 31st December 1940

Auditors' report to shareholders:

"In past years inventories were determined on the basis of physical count but owing to the necessity of maintaining continuous production on government contracts it was impracticable to take physical count of the materials on hand at the close of the year. The inventory as at 31st December 1940 therefore is based on the value of the inventory as adjusted at 31st December 1939, increased by the additions during the year 1940, less the cost of sales and other appropriate deductions for the year according to the records of the company.

"Subject to the accuracy of the estimated inventory we report"

3. Application of Funds

Arthur B. Hersey of the Board of Governors of the Federal Reserve System of the United States in a paper, "Sources and Uses of Corporation Funds," presented at the 102nd annual meeting of the American Statistical Association, Chicago, 28th December 1940 (reproduced in the June 1941 issue of the Journal of the American Statistical Association) presents the results of a study which was conducted covering the ten years 1930 to 1939 for a selected group of 58 large companies in six industries: steel, petroleum, automobiles, machinery, rubber and tobacco. The

"Source and application of funds statement" was utilized as the tool of the analysis which is essentially economic.

The paper clearly indicates the economic significance of the various items appearing on the source and application of funds statement and the following conclusions are drawn from the data studied:

(1) "that net issuance of securities and other long-term borrowing bears no simple relationship—either as to amount or timing—to capital expenditures and net new investments."

(2) "that short-term financing with notes payable or by drawing down cash or equivalent tends to act as a cushion to absorb for awhile an increase in funds needed for fixed or working asset expansion or renewal which cannot be met from currently retained cash receipts from operations."

(3) "that long term financing comes into play only as needs for funds persist or expand beyond the capacity of short-term financing to provide for them, or else as corporations find it desirable and possible to finance at long-term in order to strengthen their short-term position."

4. Natural Business Year

In an address delivered before the Union League Club in New York on 22nd May last, Colonel Robert H. Montgomery made pointed reference to the natural business year.

"Adherence to one fiscal year, when efficiency and economy clearly require adoption of another, is inconsistent with sound business management. For every business enterprise there is a natural business year which should be adopted as its fiscal year.

"The natural business year for a particular enterprise is the period of twelve consecutive months which coincides with the annual cycle of operations of the enterprise. Generally, the natural business year will end when the business activities of the enterprise are at their lowest point in the annual cycle and when inventories, receivables and liabilities are reduced to their annual minimum. The natural year-end usually occurs just before the beginning of heavy inventory replenishments in preparation for a new season."

The following observation from the president's report

to the shareholders of Hayes Steel Products Limited of 26th March 1940 is an indication, he said, that certain companies, if they have not already realized it, are in the process of realizing the benefits to be derived from the use of the natural business year:

"whereby our fiscal year will be changed to end July 31st. This change is recommended so that our fiscal year will then correspond with our normal business period, and will eliminate the costly procedure of interrupting production during our busiest season for the taking of inventory."

5. Double Entry Bookkeeping Methods

Edmund J. Wrigley, 5352 N. Sydenham Street, Philadelphia, Pennsylvania, in a mimeographed article "An Outline of the Yorkshire controlled method of double entry bookkeeping" outlines visual aids and descriptive terminology which high schools and business colleges might find interesting and helpful as a primary method in the presentation of the theory of double-entry bookkeeping.

Book Review

Advanced Accounting by W. A. Paton, of the University of Michigan.

Published by the MacMillan Company, 60 Fifth Avenue, New York City and 70 Bond Street, Toronto, 1941, cloth, 858 pages, price \$5.00.

Although the main purpose of this book as set out in the author's preface was to furnish adequate material for intermediate and advanced courses in the principles of accounting, "the needs of practising accountants for a thorough and up-to-date discussion of the crucial problems of valuation analysis and reporting" have not been overlooked.

The book is just that and has been organized in such a way as to give predominance to these particular features.

The first four chapters of Professor Paton's book deal with the nature, form and types of accounting statements encountered in actual practice supplemented by numerous practical illustrations. Chapters XXXI and XXXIII deal with the question of presentation covering the fields of graphic presentation and common dollar reporting.

The question of analysis is covered under Chapters XXIX, XXX, and XXXII under the headings of ratio an-

alysis, statement of funds, followed by an illustration of a comprehensive analysis.

Although the item of income determination was not mentioned specifically (valuation) under the reference to the needs of the practising accountant, Professor Paton has devoted Chapters XX and XXI to this aspect. These two chapters do much to clarify the concept of income and its measurement and cover such disputed points as appreciation, cost saving, accrued and deferred revenues, ranking of costs and unrealized losses.

Chapters V to XIX inclusive deal with certain of the problems involved in "valuation" of the items appearing on the asset side of the balance sheet. Of these the more significant are the chapters dealing with inventories, investments, and plant accounts with the correlated topics of depreciation and depletion. A special chapter has been devoted to the question of depreciation of utilities.

In discussing the item of inventories Professor Paton pays his respects to the last-in, first-out method and states that the first-in, first-out method of estimating invoice cost "can in general be recommended. There are no serious objections to the method, technical or otherwise and there are a number of important advantages. These may be summarized as follows:

"(1) The inventory is drawn from the actual records in a systematic manner and the result is a cost value, with no recognition of unrealized profit or loss.

"(2) The resulting inventory is usually in reasonable harmony with current market valuations.

"(3) The assumed movement of goods through the concern represents a condition to which a management should in general adhere as closely as possible."

Chapters XXII to XXVIII inclusive cover, in addition to a separate chapter on dividends, the equity divisions of the balance sheet.

The final three chapters of the book are devoted to the consolidated statement.

While the organization of the "valuation" divisions of this book follow in general the balance sheet, the viewpoint on the whole stresses the determination of periodic income as the central task of the accountant.

**NEW LEGISLATION RESPECTING TAXATION—
DOMINION AND PROVINCIAL**

Quebec

Order in Council Under Corporation Tax Act

(Note: As stated at page 416 of the June 1941 issue of *The Canadian Chartered Accountant* there have not been any amendments in 1941 of *The Corporation Tax Act* of Quebec. The following order in council, however, has been passed by the Government of the Province of Quebec and applies on and after 1st May 1941.)

An incorporated company owning fifty-one per centum or more of the voting shares of a subsidiary company is allowed to deduct from the amount of its paid-up capital, as defined in section 2 of the Quebec Corporation Tax Act, the amount which equals that proportion of the paid-up capital which the cost of the investments made by it in the shares and bonds of such subsidiary company plus the loans and advances also made by it to such subsidiary company bear to the total assets of the incorporated company, provided:

(a) The said subsidiary is a Canadian company and is subject to a tax on its capital imposed in virtue of the Quebec Corporation Tax Act or of a law of any other Province of the Dominion of Canada, and,

(b) That the deduction be allowed only with regards that part of the investment which is the subject of a tax on capital imposed either by the Quebec Corporation Tax Act or in virtue of the laws of any other Province of the Dominion of Canada, and,

(c) The said incorporated company furnish evidence satisfactory to the Treasurer of the costs of the investments made and of the *bona fide* of the loans and advances made by it to the subsidiary company, and,

(d) That the Province or Provinces thus levying a tax on the capital of such subsidiary company grant to the corporate taxpayers of the Province of Quebec doing business in such Province or Provinces a similar deduction, and,

(e) That such incorporated company is not one the assets of which consist wholly of the shares bonds and other securities of other incorporated companies and bank deposits, and,

(f) That in computing the amount of such deduction the determination of the Treasurer as to what shall be deemed to be the costs of investments made and what shall be deemed to be loans and advances deductible as aforesaid, shall be final.

The whole to effect any tax on capital payable by such incorporated companies on or after the first day of May 1941.

OFFICERS AND COUNCIL

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

OFFICERS AND COUNCIL

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Council 1941-42

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Elected by

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M. G. Graves, C.A., Calgary		
M. C. McCannel, C.A., Edmonton		
K. D. Creer, C.A., Vancouver	{	The Institute of Chartered Accountants of British Columbia
Wm. Macintosh, C.A., Vancouver		
J. Haydn Young, C.A., Vancouver		
R. T. Cunningham, C.A., Winnipeg	{	The Institute of Chartered Accountants of Manitoba
William Gray, C.A., Winnipeg		
Frederick Johnson, C.A., Winnipeg		
H. G. Norman, C.A., Montreal	{	The New Brunswick Institute of Chartered Accountants
Arthur E. Cox, F.C.A., Saint John		
T. H. Johnson, C.A., Halifax		
G. E. Martin, C.A., Halifax	{	The Institute of Chartered Accountants of Nova Scotia
J. F. Gibson, F.C.A., Toronto		
R. R. Grant, F.C.A., Toronto		
F. C. Hurst, F.C.A., Toronto	{	The Institute of Chartered Accountants of Ontario
T. H. Johnson, C.A., Halifax		
Wm. H. Campbell, C.A., Montreal		
C. F. Elderkin, C.A., Montreal	{	The Society of Chartered Ac- countants of the Province of Quebec
Alfred Smibert, C.A., Montreal		
C. P. DeRoche, C.A., Saskatoon		
M. Hesford, F.C.A., Swift Current	{	The Institute of Chartered Accountants of Saskatchewan
G. G. Patrick, C.A., Saskatoon		

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 cott, F.C.A.
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 F.C.A.
 Chairman, Committee on Accounting Terminology—John Parton, F.C.A.

GENERAL NOTES

Chartered Accountants and the War

It is with deep regret that the Society of Chartered Accountants of the Province of Quebec announces that Sgt. Robert Edward Venning Anderson of No. 218 Squadron, Royal Canadian Air Force, is reported missing, "believed killed in action." According to a telegram from the International Red Cross Society he was buried in the Cemetery at Brest.

Sgt. Anderson graduated from the School of Commerce of McGill University in 1938 and was in the employ of Messrs. Creak, Cushing & Hodgson until he joined the R.C.A.F. in January 1940, immediately after he had passed the Final examination and had been admitted a member of the Quebec Society. He went overseas in December 1940, leaving a bride of a few days behind.

To his wife and family the members of the Society wish to convey their deep sympathy, and express the hope that this is another case of mistaken identification.

Auditors' Report to the Shareholders

The recently published balance sheet of *Distillers Corporation-Seagrams Limited* contains the following report of the auditors to the shareholders. The reproduction here from time to time of forms of auditors' reports is not necessarily to be regarded as approval of the form thereof by the Editorial Committee or by The Dominion Association of Chartered Accountants but rather as information to readers.

AUDITORS' REPORT TO THE SHAREHOLDERS:

We have examined the consolidated balance sheet of Distillers Corporation-Seagrams Limited and its subsidiary companies as at July 31, 1941, and the consolidated statement of earned surplus and profit and loss for the fiscal year ending on that date. In connection therewith, we have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate, and have obtained all the information and explanations which we required. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In the consolidated accounts for the year ending July 31, 1940, expenditures aggregating approximately \$1,400,000, which were of

GENERAL NOTES

a nature similar to expenditures in the current year treated in the accompanying consolidated accounts as allowances and deducted from consolidated sales, were included in selling, general and administrative expenses.

We report that, in our opinion, the attached consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of Distillers Corporation-Seagrams Limited and its subsidiary companies as at July 31, 1941, and the attached statement of consolidated earned surplus and profit and loss sets forth the results of operations for the year ending on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies and in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in classification indicated in the preceding paragraph, which we approve.

We have also reviewed the section of the Report of Directors relating to the general principles of exchange conversion applied to items, other than those in United States currency and that relating to the Surplus of the Company and, in our opinion, the statements contained therein are correct.

Canada Year Book, 1941

The 1941 edition of the *Canada Year Book* published by the Dominion Bureau of Statistics is now available for distribution. As long as the supply lasts, copies of this publication may be obtained by the public from the King's Printer, Ottawa, at the price of \$1.50 per copy—remittance to accompany order. A limited number of paper-bound copies is available to teachers and ministers of religion at fifty cents each.

The *Canada Year Book* is a fund of information on Dominion matters and this edition extends to over 1,000 pages. It is the official statistical annual of the country and contains a thoroughly up-to-date account of our natural resources and their development, the history of the Dominion, its institutions, the different branches of production, trade, transportation, finance, education, etc.—in brief, a comprehensive study within the limits of a single volume of the social and economic condition of our country.

Films Reveal Canada's War Effort

The function of the National Film Board of Canada, formed by Act of Parliament in September 1939, is to co-ordinate all governmental film activities. Through this combination of talents it brings Canada alive on the screen

and so becomes the "Eyes of Canada." The Board is producing for general distribution in this country a large number of motion pictures relating to industrial and transportation activities connected with our war effort. In addition it is filming pictures on special topics ranging from forest conservation to agricultural marketing and education in the fine arts. At a special showing at Toronto on Saturday, 18th October, the editors and staffs of trade papers and professional magazines had the opportunity of seeing four selections from the "Canada Carries On" series. The pictures shown were: Peoples of Canada, Strategy of Metals, Battle for Oil, and Churchill's Island (Great Britain). These portray in a vivid manner the extent and intensity of Canada's war effort.

Consumer Credit

On 10th October last the Wartime Prices and Trade Board, under authority conferred by order in council, issued Order No. 64 respecting Consumer Credit. Readers may obtain a copy of the Order from the local branches of the chartered banks or from the King's Printer, Ottawa.

Government to Limit Prices and Wages

On 18th October Prime Minister Mackenzie King announced that the government had decided to halt the rise in the prices of all goods and services sold in Canada by imposing a general ceiling on prices. By ceiling is meant a limit above which prices will not be allowed to rise. The Wartime Prices and Trade Board will be responsible for the working out of the policy. At the time this month's issue went to press, the publication of the price-fixing order by the Board had not been made. Copies will be available from the King's Printer in due course and, it is expected, from the chartered banks as well.

Compulsory Savings in Great Britain

A provision has been incorporated in the British budget for 1941-42 for compulsory savings. The plan is to give the taxpayer a credit (up to a maximum of £65) in the Post Office Savings Bank equivalent to the extra tax payable by reason of reduction in the personal allowances and earned income allowances under the income tax. The credit so obtained may not be utilized during the duration of the war.

Income Ceiling in Great Britain

An important principle edged into the British Income tax system in connection with the new budget is that of a "virtual income ceiling." An effective limit has been set as to the net income which any individual may receive, (maximum about £7,000).

Consumer Credit Regulation in United States

On 9th August 1941 the President of the United States issued an Executive Order authorizing the Board of Governors of the Federal Reserve System to regulate the terms and conditions under which credit repayable in instalments may be extended for purchasing or carrying consumers' durable goods, other than residential building in its entirety. An initial regulation was issued on 21st August 1941 to become effective as of 1st September 1941 except for certain sections which become effective on 1st October, 1st November or at the beginning of 1942.

Table of Exchange Rates

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	30th September 1941	15th October 1941
U.S. Dollars	10-11% P.	10-11% P.
Sterling	443-447	443-447
Australian Pounds	358½	358½
New Zealand Pounds	360	360
South African Pounds	443	443
British West Indian—Dollars .	9270	9270
India—Rupees	3358	3358
Hongkong—Dollars	2800	2800
Straits Settlements—Dollars .	5251	5251
Sweden—Kronor	2637	2637
Switzerland—Francs	2569	2569

Note: The above currencies are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

PROVINCIAL NEWS

ALBERTA

At a meeting of the Calgary Chartered Accountants' Club held in Calgary on 23rd September 1941, Mr. J. S. Simpson, the retiring President, gave a résumé of the year's work and Mr. J. W. Dick, the Secretary-Treasurer, reported on the financial position of the club.

The following officers were elected for the ensuing year: President, G. Halpin; Vice-President, L. J. Munn; and Secretary-Treasurer, T. Allan Humphries.

A very interesting feature of the meeting was the presentation of the Dominion Gold Medal and the cheque of the Dominion Association to the successful candidate in the recent Final examination, Mr. J. R. Hardie. The presentation was made by Mr. M. G. Graves, President of the Institute of Chartered Accountants of Alberta, who expressed to Mr. Hardie the gratification of the Alberta Institute over the honours which he had brought to the Province.

Mr. Hardie is a young and enthusiastic student whose articles will not expire until next year and yet who by diligence and application was enabled to pass the Final examination and win the Gold Medal offered to the student obtaining the highest marks in the Dominion.

The retiring President, Mr. Simpson, also welcomed to the club the following new members who were successful in their examinations and have recently been admitted members of the Institute: Allan Dixon, T. Allan Humphries, G. R. McLellan and F. G. Waines.

The Edmonton Chartered Accountants' Club held a successful luncheon and annual meeting on Friday, 30th October. The activities of the past year were discussed, a new executive was elected, and plans were laid for the activities of the coming year.

It was decided that the Club should sponsor a bowling league of six teams to be run along the same lines as last year. It was suggested to the new executive that they sponsor a number of new activities, among which would be a revival of the study group idea. Students were to be included in the organization and moves were set afoot to organize a revitalized students' association. Concern was

also voiced as to the possibility that students would be subject to call for military service. Through the kindness of Mr. Henderson, the Secretary for the Alberta Institute, a clearing-house for prospective student employees was set up.

The highlight of the meeting was a brief report from Mr. M. C. McCannel who, as President of the Dominion Association, was an official Canadian delegate to the annual meeting in Detroit of the American Institute of Accountants. He gave an informal description of the large and successful conference and mentioned that most interest was shown in the various papers dealing with recent taxation problems. Mr. McCannel's report was well received by all the members.

The new executive elected at the meeting was as follows: President, J. G. Duncan; Vice-President, A. D. McTavish; Secretary-Treasurer, F. L. Symes.

ONTARIO

To honour and formally welcome into membership those who had qualified at the June 1941 Final examination, a Reception was held by the Council of the Institute of Chartered Accountants of Ontario in the Institute Library on Friday afternoon, 10th October at 4.00 o'clock. President J. F. Gibson personally congratulated those who found it possible to attend and presented to each his certificate of membership. Many of the principals of the firms, with which the new members had been associated as students, accepted the invitation of the Council to be present on the occasion.

PERSONALS

Wm. C. Benson & Company, chartered accountants, London, Ontario, announce the opening of an office in Toronto at 57 Bloor Street West, and the admission into partnership of Horace G. Lewis, chartered accountant, as resident partner.

R. Bruce Davis and Russell L. Boyce, who have been practising in partnership under the firm name of R. Bruce Davis & Company, announce that the firm name has been changed to Davis, Boyce and Company, chartered accountants. The address of the firm continues to be 405 Ottawa Electric Building, Ottawa, Ontario.

OBITUARIES

The Late Robert Henry Hayward

The Institute of Chartered Accountants of Manitoba records with deep regret the loss of Robert Henry Hayward, the last surviving charter member of The Chartered Accountants' Association of Manitoba, whose death at the age of 88 occurred in tragic circumstances at Burnaby, British Columbia, on 14th September 1941.

In February 1886 Mr. Hayward was admitted a member of the newly formed Chartered Accountants' Association of Manitoba (now The Institute of Chartered Accountants of Manitoba), which obtained its charter from the Province of Manitoba in May 1886. He was elected a member of the Council on 3rd February 1887 and served thereon until 1909. During the years 1903 to 1906 he was President of the Association.

In recognition of his services to the profession in these early days, Mr. Hayward was given a Life Membership in the Institute in 1927. At the 50th Anniversary celebration on 28th May 1936 he was a guest of honour. He retired from the practice of the profession in 1925.

The Late Francis Whittier Robertson

The Institute of Chartered Accountants of Ontario regrets to announce the death of Francis Whittier Robertson at Ottawa, Ontario, on 1st October 1941 in his 38th year.

Mr. Robertson passed the Final examination of the Institute and was elected to membership 5th February 1932, following service with the firms of Neff, Robertson & Company and Fred Page Higgins & Company, Toronto. He subsequently entered the Department of National Revenue at Ottawa and at the time of his death was an Appraiser in the Dominion Customs Department.

He is survived by his wife and two small children, to whom the Institute extends sincere sympathy.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

The question of the most useful and informative method of accounting for cash discounts on purchases is not simply a question of reporting—that is to say whether the discounts should be treated in the operating statement as an item of financial income or as a deduction from the cost of purchases—but it is a matter of alternative versions of facts. The bookkeeping procedure which culminates in the presentation of purchase discounts as financial income in the Profit and Loss section of the operating statement produces a figure of discounts *taken*. This may or may not be the same figure as discounts *claimable*, and it is the latter figure which the alternative bookkeeping procedure deducts from the purchase invoices before they are entered in the purchase book or voucher register.

The issue can be simply illustrated by assuming the purchases for a certain period to amount to \$100,000 (all subject to 3 per cent cash discount if paid in 30 days) and the discounts to have been taken on only \$80,000 of these purchases. The customary bookkeeping procedure would record purchases of \$100,000 and income from cash discounts of \$2,400; the alternative bookkeeping would show purchases at \$97,000 and loss from failure to claim discounts at \$600. The net debit to income is the same (\$97,600) by either method but the version of that net debit is seen to differ considerably according as one or the other method of bookkeeping is employed. Nor does the deduction from the gross purchases of the cash discounts taken remedy the alleged defect of the first method—for purchases would then appear to have cost \$97,600. We leave our readers to decide whether, in the circumstances of this illustration, purchases are most usefully (we will not say most “correctly”) reported at \$100,000, \$97,000 or \$97,600.

* * *

The “snowball” nature of any manipulation of profit by the recording of bogus purchases and sales which are

ostensibly settled in cash may be seen from the following hypothetical figures. Assume an opening balance sheet:

Inventory ..	\$100,000	Proprietorship	\$100,000
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and assume for the succeeding accounting period bogus sales of \$500,000 (supposedly costing \$400,000).

These sales transactions would involve entries:

Cost of sales	\$400,000	
To Inventory		\$400,000
Accounts receivable	500,000	
To Cash		500,000

The cash apparently in flowing from the sales transactions is, by hypothesis, merely a contra entry to cash paid out in settlement of equally fictitious purchase transactions. Accordingly purchases must be represented at \$500,000 (*or more*) so that we get:

Inventory	\$500,000	
To Accounts payable		\$500,000
Accounts payable	500,000	
To Cash		500,000

and a closing balance sheet:

Inventory ...	\$200,000	Proprietorship—	
		Original	\$100,000
		Profit for period	100,000

In other words the "inventory" inevitably increases by the amount of the fictitious profit. There is a leakage of *actual* cash only if and to the extent that commissions are paid on the fictitious sales transactions. It is small wonder that the treasurer of McKesson & Robbins found that the imaginary crude drugs division of that business, though profitable, was not bringing in any cash but rather was drawing cash away from the other divisions.

(For Student Association Notes, see page 378)

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

THE PROVINCIAL INSTITUTES OF CHARTERED
ACCOUNTANTS

FINAL EXAMINATIONS, JUNE, 1941

Accounting III, Question 2 (35 marks)

Your client, Machines Limited, having recently disposed of its entire business for cash plus a property valued at \$100,000 which it took in part payment, has been approached to purchase 60% interest in Washers Limited for \$1,300,000 as of 31st December 1940. When Machines Limited sold its business it discharged all its liabilities and paid out its surplus as a dividend to its shareholders leaving its capital stock of 15,000 shares \$100 par value unimpaired. The manager of Machines Limited hands you a balance sheet of Washers Limited as of that date and asks you to prepare a balance sheet showing what the consolidated position of Machines Limited and Washers Limited would be in the event of the purchase being completed. The balance sheet handed you is as follows:

WASHERS LIMITED

Balance Sheet

31st December 1940

Assets		Liabilities	
Net liquid assets	\$130,000	Capital stock	\$700,000
Fixed assets	600,000	Profit and loss account..	200,000
Investments:			
Ironers Ltd. ..	\$100,000		
Dryers Ltd. ..	70,000		
	<u>170,000</u>		
	<u>\$900,000</u>		<u>\$900,000</u>

You are given full access to Washers Limited records and ascertain the following:

1. Washers Limited, while itself a manufacturer, owns 60% and 70% of the common stocks respectively of Ironers Limited and Dryers Limited and has included all dividends from subsidiaries in its profit and loss account.

2. Washers Limited organized Ironers Limited in 1936 owning at that time all the outstanding shares for which it paid cash. Ironers Limited has sold no shares since the initial issue to Washers Limited. Ironers Limited designed and patented some very valuable machinery in the year 1938. On 1st July of the following year Washers Limited sold a 40% interest in Ironers Limited to outside interests for \$400,000.

3. Ironers Limited was very successful as the following summary of profit and loss account will show:

NOVEMBER, 1941.

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THE CANADIAN CHARTERED ACCOUNTANT

Year	Losses (After all necessary provisions)	Profits (After all necessary provisions)	Transferred to Reserve 31st December	Dividend paid ½ 30th June ½ 31st December	Balance Forward
1936	\$20,000				Dr. \$ 20,000
1937		\$ 40,000			Cr. 20,000
1938		100,000	\$50,000	\$ 20,000	Cr. 50,000
1939		200,000	50,000	100,000	Cr. 100,000
1940		150,000	50,000	100,000	Cr. 100,000

The balance sheet of Ironers Limited on 31st December 1940 is as follows:

IRONERS LIMITED
Balance Sheet
31st December 1940

Assets		Liabilities	
Net liquid assets	\$350,000	Capital stock	\$500,000
Fixed assets	400,000	Reserve	150,000
		Profit and loss	100,000
	<u>\$750,000</u>		<u>\$750,000</u>

4. Ironers Limited in June 1938 billed Dryers Limited with \$100,000 for machinery used in plant extensions of the latter which cost Ironers Limited \$80,000. Again in November 1939 Dryers Limited was billed with \$60,000 for similar machinery which showed a profit to Ironers Limited of \$20,000. You also find that the profit made in these transactions was fair in the trade.

5. Washers Limited acquired its 70% interest in Dryers Limited on 1st January 1935 for \$70,000, since which time no change has taken place in the capital account of the latter. The profit and loss account of Dryers Limited since the acquisition shows the following:

Year	Loss	Profit	Balance 31st December
1935		\$10,000	Dr. \$40,000
1936		10,000	Dr. 30,000
1937		15,000	Dr. 15,000
1938		20,000	Cr. 5,000
1939		25,000	Cr. 30,000
1940		35,000	Cr. 65,000

The balance sheet of Dryers Limited on 31st December 1940 is as follows:

DRYERS LIMITED
Balance Sheet
31st December 1940

Assets		Liabilities	
Net liquid assets	\$ 50,000	Capital stock	\$200,000
Fixed assets	215,000	Profit and loss	65,000
	<u>\$265,000</u>		<u>\$265,000</u>

Prepare consolidated balance sheet of Machines Limited and subsidiaries assuming that company to have purchased 60% of the stock of Washers Limited for \$1,300,000.

STUDENTS' DEPARTMENT

SOLUTION MACHINES LIMITED Consolidated Balance Sheet 31st December 1940

Assets	
Net liquid assets	\$ 630,000
Fixed assets	1,315,000
Goodwill	480,700
	<u>\$2,425,700</u>
Liabilities	
Interest of minority shareholders in subsidiary companies..	\$ 925,700
Capital stock	1,500,000
	<u>\$2,425,700</u>

Note re inter-company profit.

The value of fixed assets would seem, from a practical standpoint, to be fair. However, a solution which reduced the amount of fixed assets and increased goodwill by the parent company's proportion of the profit on the sales of Ironers Limited to Dryers Limited, would be entitled to full credit.

WASHERS LIMITED

Adjustment Entries 31st December 1940

	Dr.	Cr.
1. Investment of Washers Limited in Ironers Limited	\$350,000	
60% Reserve fund of Ironers	\$150,000	\$ 90,000
60% Profit and loss of Ironers	100,000	60,000
Consolidation surplus		200,000
Book value of Ironers' capital, reserve and profit and loss	750,000	
60% Thereof	450,000	
Value of investment in Washers' books ..	100,000	
Adjustment in Washers' books	<u>\$350,000</u>	
2. Investment of Washers Limited in Dryers Limited	115,500	
70% Profits of Ironers 1935-1940		80,500
Consolidation surplus		35,000
Adjustment re Dryers' profits 1st January 1935 to 31st December 1940:		
Deficit 1st January 1935	\$ 50,000	
Surplus 31st December 1940	65,000	
Adjustment	<u>115,000</u>	
70% Thereof	<u>\$ 80,500</u>	

THE CANADIAN CHARTERED ACCOUNTANT

Adjustment re purchase of 70% interest:

Issued value Dryers' stock	200,000
Deficit	50,000
	<u>150,000</u>
70% Thereof	105,000
Cost	<u>70,000</u>
Adjustment	<u>\$ 35,000</u>

MACHINES LIMITED—CONSOLIDATED POSITION

Inter-Company Elimination Entries

	<i>Dr.</i>	<i>Cr.</i>
Washers' investment in Ironers' stock		\$ 450,000
Washers' investment in Dryers' stock		185,500
Machines' investment in Washers' stock		1,300,000
60% of Washers' capital stock	\$ 420,000	
60% of Washers' profit and loss	120,000	
60% of Washers' interest in Ironers' reserve	54,000	
60% of Washers' interest in Ironers' profit & loss	36,000	
60% of Washers' consolidation surplus re Ironers	120,000	
60% of Washers' interest re Dryers' profit & loss..	48,300	
60% of Washers' consolidation surplus re Dryers	21,000	
60% of Ironers' capital	300,000	
60% of Ironers' reserve fund	90,000	
60% of Ironers' profit and loss	60,000	
70% of Dryers' capital stock	140,000	
70% of Dryers' profit and loss	45,500	
Goodwill	480,700	
	<u>\$1,935,500</u>	<u>\$1,935,500</u>

MACHINES LIMITED
Working Balance Sheet Consolidation
31st December 1940

ACCOUNT	Balance sheet Washers Limited	Adjusting entries in accounts of Washers Limited		Adjusted balance sheet Washers Limited	Balance sheet Irons Limited	Balance sheet Dryers Limited	Balance sheet Machines Limited	Total all companies	Elimination entries		Consolidated Balance sheet
		DR.	CR.						DR.	CR.	
<i>Assets</i>											
Net liquid assets	\$130,000			\$130,000	\$350,000	\$50,000	\$100,000	\$ 630,000			\$ 630,000
Fixed assets	600,000			600,000	400,000	215,000	100,000	1,315,000			1,315,000
Investment 60% Ironers' stock ..	100,000	\$350,000		450,000				450,000		\$ 450,000	
Investment 70% Dryers' stock ..	70,000	115,500		185,500				185,500		185,500	
Investment 60% Washers' stock ..							1,300,000	1,300,000	\$ 480,700	1,300,000	
Goodwill											480,700
	<u>\$900,000</u>			<u>\$1,365,500</u>	<u>\$750,000</u>	<u>\$265,000</u>	<u>\$1,500,000</u>	<u>\$3,880,500</u>			<u>\$2,425,700</u>
<i>Liabilities</i>											
Washers Limited:											
Capital	\$700,000			\$ 700,000				\$ 700,000	420,000		\$ 280,000
Profit and loss	200,000			200,000				200,000	120,000		80,000
60% reserve of Ironers			\$ 90,000	90,000				90,000	54,000		36,000
60% profit and loss Ironers			60,000	60,000				60,000	36,000		24,000
Consolidation surplus re Ironers ..			200,000	200,000				200,000	120,000		80,000
70% profits of Dryers			80,500	80,500				80,500	48,300		32,200
Consolidation surplus Dryers ..			35,000	35,000				35,000	21,000		14,000
Irons Limited:											
Capital					\$500,000			500,000	300,000		200,000
Reserve fund					150,000			150,000	90,000		60,000
Profit and loss					100,000			100,000	60,000		40,000
Dryers Limited:											
Capital						\$200,000		200,000	140,000		60,000
Profit and loss						65,000		65,000	45,500		19,500
Machines Limited:											
Capital	\$900,000	\$465,500	\$465,500	\$1,365,500	\$750,000	\$265,000	\$1,500,000	1,500,000			925,700
	<u>\$900,000</u>	<u>\$465,500</u>	<u>\$465,500</u>	<u>\$1,365,500</u>	<u>\$750,000</u>	<u>\$265,000</u>	<u>\$1,500,000</u>	<u>\$3,880,500</u>	<u>\$1,935,500</u>	<u>\$1,935,500</u>	<u>\$2,425,700</u>

WASHERS LIMITED
and Subsidiaries
Working Balance Sheet Consolidation
31st December 1940

ACCOUNT	Total Washers Limited and Subsidiaries Adjusted	Elimination Entries		Consolidated Balance Sheet Washers Limited	
		Dr.	Cr.		
ASSETS					
Net liquid assets	\$ 530,000			\$ 530,000	
Fixed assets	1,215,000			\$1,215,000	
Investment 60% Ironers' stock	450,000		\$450,000		
Investment 70% Dryers' stock	185,500		185,500		
	<u>\$2,380,500</u>			<u>\$1,745,000</u>	
LIABILITIES					
Washers Limited:					
Capital	\$ 700,000			\$ 700,000	
Profit and loss	200,000			340,500	
60% Reserve of Ironers	90,000				Profit & Loss
60% Profit and loss Ironers	60,000			90,000	Reserve Fund
Consolidation surplus re Ironers	200,000				Surplus on
70% Profits of Dryers	80,500			235,000	consolidation
Consolidation surplus Dryers	35,000				
Ironers Limited:					
Capital	500,000			200,000	
Reserve fund	150,000	\$300,000		60,000	
Profit and loss	100,000	60,000		40,000	Minority Interest
Dryers Limited:					
Capital	200,000	140,000		60,000	\$379,500
Profit and loss	65,000	45,500		19,500	
	<u>\$2,380,500</u>	<u>\$635,500</u>	<u>\$635,500</u>	<u>\$1,745,000</u>	

STUDENTS' DEPARTMENT

PROBLEM II

**THE PROVINCIAL INSTITUTES OF CHARTERED
ACCOUNTANTS**

FINAL EXAMINATIONS, JUNE, 1941

Accounting III, Question 4 (25 marks)

Black Manufacturing Company Limited with the necessary approvals decides to effect a re-organization of its capital as of 31st December 1940. Following is the balance sheet of that date:

ASSETS		LIABILITIES	
Net current assets	\$ 375,400	6% Mortgage bonds ...	\$ 365,000
Fixed assets	721,300	7% Debentures	275,000
Goodwill	100,000	6% Preferred stock (par	
Deficit	243,300	100)	400,000
		Common stock (par 100)	400,000
	<u>\$1,440,000</u>		<u>\$1,440,000</u>

The plan of reorganization provides as follows:

1. The 6% mortgage bond holders are to receive \$100 in new 5% mortgage bonds and 1/10 of a share of the new 5% cumulative preference stock, par value 100, for each \$100 of 6% mortgage bonds.

2. The holders of 7% debentures are to receive 3 new 5% cumulative preference shares and 2½ no par value common shares for each \$500 of 7% debentures.

3. The holders of 6% preferred stock are to receive 2½ new 5% cumulative preference shares and 20 no par value common shares for each 10 shares of 6% preferred stock.

4. The holders of common shares are to receive 20 new no par value common shares for each 100 shares of common stock.

5. The no par value common shares are all to be issued for \$25.00 per share of which 25% is to be credited to distributable surplus.

6. 2,500 shares of 5% cumulative preference stock are sold for cash at par with a bonus of 1 share of no par value common provided by the holders of the old 6% preferred stock out of the proceeds of the conversion of their shares.

7. The resulting surplus on reorganization is to be used to write down deficit, goodwill and fixed assets.

Show journal entries and balance sheet giving effect to the re-organization, together with a capital reorganization account.

SOLUTION
Black Manufacturing Company Limited

SECURITIES BEFORE REORGANIZATION (a)		SURPLUS OF CONVERSION OF EACH SECURITY (c)	
(1) 6% Mortgage bonds	\$ 365,000	6% Mortgage bonds ..	\$ 36,500
(2) 7% Debentures	275,000	7% Debentures	75,625
(3) 6% Preferred stock, 4,000 shares of 100 par value.	400,000	6% Preferred stock ...	100,000
(4) Common stock, 4,000 shares \$100 par value	400,000	Common Stock	380,000
	<u>\$1,440,000</u>		<u>\$ 519,125</u>

(continued below)

NEW SECURITIES TO BE ISSUED
(b)

5% Mortgage Bonds	5% Cumulative Preference Stock		No Par Value Common Stock at \$25 per share			
				Capital	Distributable Surplus	Total
\$ 365,000	365,000	x 1/10 at \$100	\$ 36,500			
	100					
	275,000	x 3 at 100	165,000	25,781.25	\$ 8,593.75	\$ 34,375
	500					
	4,000	x 2½ at 100	100,000	150,000	50,000	200,000
	10					
				15,000	5,000	20,000
				\$190,781.25	\$63,593.75	\$ 254,375
\$ 365,000			\$ 301,500			

Editor's Note: For convenience in printing, the divisions shown above had to be grouped in this manner; but in the solution of the problem the student, with the use of the regular 14-column paper, would show the divisions in continuous order, namely (a), (b), (c).

THE CANADIAN CHARTERED ACCOUNTANT

BALANCE SHEET—31st DECEMBER 1940		JOURNAL ENTRIES	Dr.	Cr.
<i>Assets:</i>				
Net current assets	\$ 375,400	Cash for sale of 2,500 shares 5% preference	\$ 250,000	\$ 175,825
Fixed assets	721,300	Write down fixed assets from surplus		100,000
Goodwill	100,000	Transfer to capital reor- ganization account		243,300
Deficit	243,300	Transfer to capital reor- ganization account		
	<u>\$1,440,000</u>			
<i>Liabilities:</i>				
6% Mortgage bonds	\$ 365,000	Transfer to capital reorganiza- tion account	365,000	
7% Debentures	275,000	Transfer to capital reorganiza- tion account	275,000	
6% Preferred stock (par 100)	400,000	Transfer to capital reorganiza- tion account	400,000	
Common stock (par 100) ..	400,000	Transfer to capital reorganiza- tion account	400,000	
5% Mortgage bonds		New 5% bonds issued		365,000
5% Cumulative preference stock		New 5% cumulative prefer- ence stock issued		301,500
No par value common stock		2500 shares 5% cumulative preference stock sold		250,000
Distributable surplus				190,781.25
				63,593.75
	<u>\$1,440,000</u>		<u>\$1,690,000</u>	<u>\$1,690,000.00</u>

(Continued below)

STUDENTS' DEPARTMENT

BALANCE SHEET AFTER REORGANIZATION		Capital Reorganization Account	Cr.	Dr.
<i>Assets</i>				
Net current assets	\$ 625,400			
Fixed assets	545,475	Fixed assets written down ..	\$ 175,825	
		Goodwill written off	100,000	
		Deficit written off	243,300	
	<u>\$1,170,875</u>			
		6% Mortgage bonds cancelled		\$ 365,000
		7% Debentures cancelled		275,000
		6% Preferred stock cancelled.		400,000
		Common stock (100 par) cancelled		400,000
		Securities issued on reorganization cancelled:		
		5% Mortgage bonds	365,000	
		5% Cumulative preference.	301,500	
		No par value:		
		Capital	190,781.25	
		Distributable surplus ...	63,593.75	
	<u>\$1,170,375.00</u>		<u>\$1,440,000.00</u>	<u>\$1,440,000</u>
<i>Liabilities:</i>				
5% Mortgage bonds	\$ 365,000			
5% Cumulative preference stock	551,500			
No par value common stock	190,781.25			
Distributable surplus ...	63,593.75			
	<u>\$1,170,375.00</u>			

STUDENT ASSOCIATION NOTES

QUEBEC

The Chartered Accountant Students' Society offers for its members this fall a very interesting and diversified programme of activities, including study groups, test examinations, lectures on topical subjects and the annual smoker.

An Intermediate study group is being held each Thursday evening at 6:15 o'clock until 20th November. These groups are under the supervision of John C. Newland, C.A., and Victor Houghton, C.A., and all those preparing to write the uniform Intermediate examination of the Provincial Institutes of Chartered Accountants are urged to attend.

Another group meets every Monday evening at 8 o'clock under the direction of Mr. P. T. R. Pugsley, C.A. The subject "Effective Expression and Report Writing" is designed to assist the accountant to present facts in an effective manner. Both these groups meet in the offices of the Society.

Test examinations for Final students, both English and French, were held this fall at Sir George Williams College under the direction of Messrs. C. N. Knowles, C.A., and André Leroux, C.A., and two discussion meetings were also held to discuss the results of these examinations.

Mr. A. W. Gilmour, C.A., will deliver two lectures on income tax legislation designed to cover recent changes. These will be held in the lecture hall of the Mechanics Institute, 1200 Atwater Avenue, on 21st and 28th November at 7 p.m. The Society hopes to arrange other lectures on topical subjects in the near future.

It has been decided to hold again the ever popular Annual Smoker on the Friday evening following the Dominion examinations.

A general meeting of the Society will be held at the Windsor Hotel on Friday the 14th November at 8:15 p.m. The speaker, Mr. C. F. Elderkin, C.A., Consultant of the Unemployment Insurance Commission, will lecture on "Unemployment Insurance—The Accountant's Viewpoint."

It is also proposed to hold a meeting on the general subject of "The Accountant in Wartime" with several speakers. Particulars will be announced at a later date.

The committee is at present working out details for the Spring programme.

